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ABSTRACT

This guide, in addition to continuing the cost principles that apply to Department of Health, Education, and Welfare (DHEW) grants and contracts performed at colleges and universities, describes in general terms the process of indirect cost rate determinations and sets forth instructions for the submission of rate proposals by grantees and contractors. Sections contain: (1) information on basic considerations involved in rate determination and on DHEW views and practices; (2) guidelines for preparation of an indirect cost rate proposal; (3) guidelines for preparation of fringe benefits and other special rate proposals; (4) General Services Administration Federal Management Circular (FMC) 73-8, the Federal cost principles followed by DHEW in establishing the acceptability of charges to its grants and contracts, and General Services Administration Federal Management Circular (FMC) 73-6, which contains Federal policy that provides for the assignment of audit and negotiation responsibility for a given educational institution to a single Federal agency; (5) sample indirect cost rate proposal formats, a guide for the use of fixed rates with carry forward, sample indirect cost rate proposal formats, a guide for the use of fixed rates with carry forward, a sample activity report, a sample summary indirect cost settlement sheet, and a sample negotiation agreement. (Author)

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A Guide for COLLEGES AND UNIVERSITIES

Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the Department of Health, Education, and Welfare

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U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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U.S. DEPARTMENT OF
HEALTH, EDUCATION, AND WELFARE
September 1974

OASC-1
(Revised)

Cost Principles
And Procedures for Establishing Indirect Cost and Other Rates
For Grants and Contracts with the
Department of Health, Education, and Welfare

A GUIDE FOR COLLEGES AND UNIVERSITIES

This brochure is intended for use by institutions of higher education. It is one of a series of brochures which incorporate a set of cost principles, sample proposal formats, and management guides, each appropriate to a particular type of institution.

U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Caspar W. Weinberger, Secretary

John D. Young, Assistant Secretary, Comptroller

Henry G. Kirschenmann, Director, Division of Financial
Management Standards & Procedures

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DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

In 1971, we revised the brochure entitled "A Guide for Educational Institutions - Establishing Indirect Cost Rates for Research Grants and Contracts with the Department of Health, Education, and Welfare" (OASC-1). It contained Office of Management and Budget Circular A-21, Principles for Determining Costs Applicable to Research and Development under Grants and Contracts with Educational Institutions, and described the procedures for establishing indirect cost rates for use on DHEW research grants and contracts.

The 1971 revision gave recognition to Office of Management and Budget Circular A-88 which assigned responsibility for audit and negotiation of indirect cost rates and special rates at each educational institution to a single Federal agency. Most educational institutions are under the cognizance of the Department of Health, Education, and Welfare. OMB Circulars A-21 and A-88 have recently been redesignated by the General Services Administration as Federal Management Circulars 73-8 and 73-6, respectively.

This brochure, like its predecessor, contains sample indirect cost proposal formats. They are intended to provide a helpful illustration of the mechanics of proposal preparation. Administrators, however, will need to adapt the formats to the particular accounting system, organizational structure and program activity of their individual institutions.

We hope that this brochure proves useful, and will welcome your comments on it as well as on the other steps being taken to improve the rate determination process.

Your indirect cost rate proposal and any inquiries concerning them should be submitted to the DHEW Regional Comptroller for your region, at the address shown in Section I of this brochure.

Sincerely yours,

John D. Young
Assistant Secretary, Comptroller

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A GUIDE FOR COLLEGES AND UNIVERSITIES

PREFACE

The Department of Health, Education, and Welfare recognizes that careful determination of costs is essential to the continued vigor of its programs conducted under grants and contracts in educational institutions.

The Department recognizes, too, that there are both direct and indirect costs, and that the determination of indirect costs is a matter of critical importance in the sponsored project relationship. For this reason, it wishes to encourage the fullest understanding of statutory, procedural, or other requirements in relation to costing, believing that such understanding will facilitate the administration of programs that are of great importance to the Department and to the institutions performing them.

Within the Department, responsibility for the development and issuance of cost policies applicable to grants and contracts conducted at institutions of higher education is assigned to the Division of Financial Management Standards and Procedures, Office of the Assistant Secretary, Comptroller. Centralization of the cost policy function within that Division ensures that continual evolvement of a uniform set of cost principles applicable to all grants and contracts awarded by any of the Department's agencies.

Responsibility for reviewing and negotiating indirect cost, fringe benefit, and other special rates for grants and contracts is delegated to the Regional Comptroller in each of ten Departmental regional offices. Each Regional Comptroller is responsible for the determination of indirect cost, fringe benefit, and other special rates for those institutions located within the geographical confines of his region that receive Department grants and contracts. The rates determined by the Regional Comptroller will be used by all of the Department's agencies in determining the amount of indirect costs, fringe benefits, and other special costs applicable to its grants and contracts.

This guide, in addition to containing the cost principles which apply to DHEW grants and contracts performed at colleges and universities, describes in general terms the process of indirect cost rate determinations and sets forth instructions for the submission of rate proposals by grantees and contractors.

Section I contains information on basic considerations involved in rate determination and on Departmental views and practices.

Section II sets forth guidelines for preparation of an indirect cost rate proposal.

Section III sets forth guidelines for preparation of fringe benefit and other special rate proposals.

Section IV contains General Services Administration Federal Management Circular (FMC) 73-8, the Federal cost principles followed by the Department of Health, Education, and Welfare in establishing the acceptability of charges to its grants and contracts, and General Services Administration Federal Management Circular (FMC) 73-6, the Federal policy providing for the assignment of audit and negotiation responsibility for a given educational institution to a single Federal agency.

Section V contains sample indirect cost rate proposal formats, a guide for the use of fixed rates with carry forward, a sample activity report, a sample summary indirect cost settlement sheet and a sample negotiation agreement.

This brochure is published as an aid to colleges and universities to help them become aware of and understand DHEW requirements. The contents of the brochure are authoritative and reflect DHEW policy in summary form in effect as of the date of issuance.

However, policies and procedures change and institutions performing under DHEW grants and contracts are cautioned to refer to the Department's official policies contained in the DHEW Grants Administration Manual and the DHEW Procurement Manual and the appropriate DHEW regulations as the ultimate authoritative policy documents. They may be purchased from the Government Printing Office, Washington, D.C. 20402.

SECTION I—INDIRECT COSTS AND DHEW

The Nature of Indirect Costs

Indirect costs are those costs of an institution which are not readily identifiable with a particular project or activity but nevertheless are necessary to the general operation of the institution and the conduct of its activities. The costs of operating and maintaining buildings, grounds, and equipment, depreciation, general and departmental administrative salaries and expenses and library costs are types of expenses usually considered as indirect costs.

In theory, all such costs might be charged directly; practical difficulties, however, preclude such an approach. Therefore, they are usually grouped into common pool(s) and distributed to those institutional activities benefited through a cost allocation process. The end product of this allocation process is an indirect cost rate(s) which is then applied to individual grant and contract awards to determine the amount of indirect costs chargeable to the awards.

Indirect Cost Rates

An indirect cost rate is simply a device for determining fairly and expeditiously, within the boundaries of sound administrative principles, that proportion of an institution's indirect costs each of its projects or activities, including grants and contracts, should bear.

The indirect cost rate is the ratio, expressed as a percentage, between indirect costs and a direct cost base, commonly direct salaries and wages, but occasionally total direct costs exclusive of capital expenditures and other distorting base costs, when an institution (using the regular method of indirect cost computation) can demonstrate that it produces more equitable results. An indirect cost rate is established on the basis of an indirect cost proposal submitted by an educational institution to the DHEW Office of the Regional Comptroller for the region in which the institution is located, or to a Federal department other than the Department of Health, Education, and Welfare in accordance with Federal Management Circular (FMC) 73-6. A listing of DHEW Regional Comptroller offices appears later in this Section. Indirect costs are reimbursed to an institution based on its established rate, subject to administrative and legislative limitations, as part of the costs of individual grants and contracts awarded by the Department.

Indirect cost rates may be established as either provisional, final, predetermined, or fixed with carry forward provision.

Provisional

A provisional indirect cost rate is a temporary rate. It is used by Department of Health, Education, and Welfare awarding agencies as a basis for estimating and funding the amount of indirect costs applicable to a grant or contract until actual indirect costs can be determined and a final indirect cost rate established. Provisional indirect cost rates are subject to adjustment at some future date. A provisional rate is used to compute indirect costs on grant applications and contract proposals and on grant reports of expenditures and contract public vouchers pending the development of a rate based on an institution's actual costs during the period of grant or contract performance. Normally, an institution's last final indirect cost rate is used as its current provisional rate. For example, a final indirect cost rate established for the period July 1, 1973 through June 30, 1974, would also be used as the provisional indirect cost rate beginning July 1, 1974. However, if a significant change in the type or level of an institution's activities is anticipated, the provisional indirect cost rate should be based on the projections of the ensuing period's activity.

Final

A final indirect cost rate is established after an institution's actual costs for a given accounting period (normally its fiscal year) are known. Once established, a final indirect cost rate is not subject to adjustment. The final indirect cost rate is used to adjust the costs reported through use of provisional indirect cost rates on grant reports of expenditures and contract public vouchers. Methods of adjustment are described in Section V, Appendix 4.

Predetermined

A predetermined indirect cost rate is a permanent rate, negotiated and agreed to for a specified future period, usually one year. Such rates are established when there is reasonable assurance, normally based on experience and a reliable projection of an institution's probable level of activity, that the rate agreed to will approximate the institution's actual rate. Except in very unusual circumstances, a predetermined indirect cost rate is not subject to adjustment.

Fixed Rate with Carry Forward

A fixed rate with Carry Forward provision has characteristics of both the provisional and the predetermined indirect cost rate. A rate is computed and fixed for a specified future period based on an estimate of that future period's level of operations. The rate is not subject to adjustment. However, when the actual costs of that period are known, the difference between the estimated costs and the actual costs is carried forward as an adjustment to a subsequent period for which a rate is established.

The adjustment cannot be made in the fiscal period immediately following because the fixed rate for the immediately following fiscal period will already have been determined. An adjustment generally will be carried forward to the second or third fiscal period following the period being adjusted. A fixed rate should be selected that will closely approximate the actual rate to be incurred. An accurate forecast will confine carry forward amounts to minimal differences. Carry forward procedures are described in Section V, Appendix 2.

Selection of Rate Method

The Department of Health, Education, and Welfare encourages institutions to use, where applicable, either predetermined indirect cost rates or fixed rates with carry forward. Both of these methods permit a more timely closing of completed grants and contracts because an agreement has been reached on indirect costs in advance of their having been incurred. Provisional indirect cost rates with subsequent provision for finalization require an after-the-fact adjustment for grant/contract closing purposes that cannot be made until after all the processes of book closings and negotiating a fiscal year's cost have been completed.

Applying Rates to Grants and Contracts Awarded by DHEW

The Department of Health, Education, and Welfare awards hundreds of grants and contracts annually to scores of institutions. The awards are generally for a period of one year but that year does not usually coincide with a recipient institution's fiscal year. When a grant or contract period does not coincide with the institution's fiscal year, two indirect cost rates are used, one for each of the institution's fiscal years in which the award is performed. For example, assume that final rates of 35% and 30% have been established for the two fiscal periods ending June 30, 1972 and June 30, 1973, respectively and that a one-year grant that included $50,000 for direct salaries and wages was awarded effective March 1, 1972. If $30,000 of the direct salaries and wages were expended by June 30, 1972 and $20,000 during the last eight months of the grant year, the 35% rate would be applied to the $30,000 and the 30% rate would apply to the $20,000.

Statutory and Administrative Limitations

A few DHEW programs have legislative or administrative limitations on the amount of indirect costs which can be reimbursed.

Indirect costs applicable to grants awarded under programs having legal prohibitions or limitations are reimbursed in accordance with the legal restrictions.

Indirect costs are not reimbursed on fellowships and similar awards under which Federal financing is exclusively in the form of fixed amounts, on published tuition rates of an institution, on construction grants, or on staffing grants.

Indirect costs on training awards is limited to the lesser of an institution's actual costs or 8% of total allowable direct costs.

Some grant programs, notably research, have cost sharing requirements. An institution may satisfy its requirement through indirect costs. For example, if an institution had to cost share an amount of $50,000 under a given grant and the amount of indirect costs, computed via the indirect cost rate, applicable to that grant was $75,000, the institution could satisfy its cost sharing by waiving reimbursement of all but $25,000 of its indirect costs entitlement.

Coordination Among Federal Agencies

In the past, it was the general practice of Federal departments or agencies to separately negotiate indirect cost rates applicable to their grants or contracts at a given institution. This practice resulted in inefficiencies and inequities and was unsatisfactory both to the educational community and the Federal Government. At present, however, FMC 73-6 sets out policies for coordinating the establishment of indirect cost rates and the auditing of Federal grants and contracts at institutions of higher learning. Under the authority of FMC 73-6, each educational institution that receives Federal funds is assigned to a single Federal Department or agency which is responsible (cognizant) for the negotiation of indirect cost rates and the audit of all Federal awards to that institution. Accordingly, indirect cost rates established for a given institution by its cognizant Federal department or agency must be accepted, except in unusual circumstances and then only in coordination with the cognizant agency, by all other Federal departments and agencies as being applicable to their grants and contracts.

The departments and agencies which have been assigned cognizance are the:

Department of Health, Education, & Welfare

Department of Defense

Department of the Interior

Energy Research and Development Administration

A listing of institutions assigned to each of these Federal departments and agencies has been issued as Attachment A to FMC 73-6. Within the Department of Health, Education, and Welfare, the DHEW Regional Comptrollers and the DHEW Regional Audit Directors respectively, are the Department's cognizant officials for rate negotiation and for audit matters.

Requirement for Submission of Indirect Cost Proposals

DHEW Cognizant

Each institution claiming reimbursement for indirect costs must submit an indirect cost rate proposal to document how it derived the rate(s) it used to compute its claim.

The failure of an institution to submit timely proposals may result in the disallowance of costs previously awarded. Further, DHEW awards made during a period for which an institution does not have a current indirect cost rate will not include an amount for indirect costs. If a rate is subsequently established, based on the late submission of an indirect cost proposal, indirect costs on DHEW awards will be provided only for the period beginning with the first day of the month in which the proposal is submitted. Federal agencies other than DHEW have similar policies.

The Department recognizes that occasionally extenuating circumstances may preclude compliance with the time period within which proposals must be submitted. When the due date for submission of proposals cannot be met, a formal request for an extension, stating the reasons, should be made to the Regional Comptroller prior to the due date. If the request is approved and the proposal is subsequently submitted in accordance with the conditions of approval, no penalty will be assessed.

Indirect cost proposals need not be submitted if:

1. An institution has waived indirect cost entitlement on its grants and contracts.
2. An institution is awarded only training awards subject to an indirect cost limitation of 8% of total direct costs and its indirect cost rate exceeds that limitation.

Proposals should be sent to the appropriate Regional Comptroller*, Department of Health, Education, and Welfare at the following addresses:

Regional Comptroller's Address	For Institutions Located In
John Fitzgerald Kennedy Federal Building Government Center Boston, Massachusetts 02203	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Federal Office Building 26 Federal Plaza New York, New York 10007	New Jersey, New York, Canada, Puerto Rico, Virgin Islands, England, Beirut
Federal Office Building 3535 Market Street P.O. Box 13716 Philadelphia, Pa. 19101	Delaware, Maryland, Pennsylvania, Washington, D.C., West Virginia, Virginia
Peachtree-Seventh Building 50 Seventh Street, N.E. Atlanta, Georgia 30323	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee
Federal Office Building 300 S. Wacker Drive Chicago, Illinois 60607	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin
Federal Office Building 1114 Commerce Street Dallas, Texas 75202	Arkansas, Louisiana, Texas, New Mexico, Oklahoma
Federal Office Building 601 East 12th Street Kansas City, Missouri 64106	Iowa, Kansas, Missouri, Nebraska
Federal Office Building 1961 Stout Street Denver, Colorado 80202	Colorado, Montana North Dakota, South Dakota, Utah, Wyoming
Federal Office Building 50 Fulton Street San Francisco, California 94102	American Samoa, Arizona, California, Guam, Hawaii, Nevada, Wake Island Trust Territories of Pacific Islands
Arcade Building 1321 Second Avenue Seattle, Washington 98101	Alaska, Idaho, Oregon, Washington

*The Regional Comptroller is officially titled Assistant Regional Director for Financial Management.

An institution that has not previously established an indirect cost rate with the Department must submit its initial proposal to the appropriate Office of the Regional Comptroller immediately after being notified that an award providing reimbursement for indirect costs will be made. Where possible, this proposal should be submitted prior to the date of the award, and, in no event, later than three months after such date. If initial proposals are submitted within the three month period, indirect costs will be reimbursed for the full award year. If initial proposals are not submitted within the three month period, indirect costs will be irrevocably lost for all months prior to the month that the indirect cost proposal is submitted. The proposal, which will be used to establish a rate to permit funding under the award, should normally be based on the institution's actual costs for its most recently completed fiscal year. However, if the institution is aware of factors that are expected to result in a significant change in the rate during the fiscal year during which the award is to be performed, the proposal should be based on the projected costs of that year.

An institution that has previously established an indirect cost rate with the Department must submit a new proposal to the appropriate Office of the Regional Comptroller within six months after the close of each fiscal year in which a grant or contract is performed. The type of rate(s) reflected in the proposal and the fiscal year(s) on which it should be based will be governed by the specific circumstances involved:

a. If a provisional rate(s) was previously established for the most recently completed fiscal year, the proposal must reflect (1) a final rate(s) for the completed year based on the actual costs of that year, and (2) a fixed, predetermined, or provisional rate(s) for the subsequent year. Normally, the rate(s) for the subsequent year should be based on actual costs for the most recently completed year. However, if the institution is

aware of factors that are expected to result in a significant change in the rate(s) during the subsequent year, the rate computation must be based on projected costs of that year.

b. If a fixed or predetermined rate(s) was previously established, the proposal must reflect a rate(s) for the fiscal year immediately following the year covered by the last negotiation. This rate(s) should be based on the actual costs for the most recently completed year, or, if the factors described in "a." above are present, projected costs for the fiscal year covered by the rate(s).

The proposal should be prepared in accordance with the guidelines set forth in Section II. It should be accompanied by, and cross-referenced and reconciled to, the institution's independently audited financial statements. If independently audited financial statements are not available, the Regional Comptroller's office should be contacted for advice on the supporting documentation that will be acceptable.

DHEW Not Cognizant

An institution which has been assigned to a Federal department or agency other than DHEW need not submit an indirect cost proposal to DHEW; instead it should submit its proposal to its cognizant department or agency in accordance with instructions from that organization. When rates have been established, the cognizant Federal agency will notify the DHEW Regional Comptroller and the rates will be accepted by DHEW for use on its grants and contracts.

Formalization and Dissemination of Indirect Cost Rate Information

A Negotiation Agreement, DHEW Form NA-1 (FMC 73-6) (See Section V, Appendix 5) is used by DHEW to formalize the results of a rate negotiation and to disseminate those results to personnel within the Department of Health, Education, and Welfare and to other Federal agencies responsible for the award and settlement of grants and contracts. The Agreement is signed by an authorized representative of the institution and by a designated representative of the Regional Comptroller. Copies of the agreement are duplicated and distributed to the various concerned parties.

Form NA-1 (FMC 73-6) has been accepted by the General Services Administration for Government-wide application and will be used by all cognizant Federal agencies to formalize their negotiations and to disseminate rate information. In accordance with FMC 73-6, the results of a negotiation between an institution and its cognizant Federal agency is binding upon all Federal agencies. Hence, agreements entered into between an institution and a cognizant Federal agency other than DHEW will be accepted by DHEW as applicable to its grants and contracts without the need for an additional formal agreement between the institution and the Regional Comptroller. The receipt of a signed agreement from another cognizant Federal agency will serve as authority to DHEW to use the rates contained therein and upon such receipt the rate information will be distributed to DHEW awarding agencies without the necessity for further action on the part of the institution.

Award and Settlement of Indirect Costs

Subject to any restrictions on the recovery of indirect costs for a particular program, indirect costs will be awarded using the latest established indirect cost rate applicable to the period of performance of the award. An institution seeking reimbursement of indirect costs on a proposed grant or contract should show the amount requested in its grant application or contract proposal. The amount requested should be computed using the indirect cost rate reflected in the institution's most recent negotiation agreement. The rate itself, should be cited in the application or proposal.

Commonly, grant applications and contract proposals need to be submitted far in advance of the date of award. In the interim, indirect cost rates which were current at the date of application or proposal may be superseded by more current rates as of the date of award. When this occurs, DHEW awarding agencies will use the negotiated indirect cost rate in effect when the award is made. Institutions which have not established a current indirect cost rate with the Regional Comptroller at the time a grant or contract is awarded will not be awarded indirect costs until a rate has been established. Where the indirect cost proposal has not been submitted on time, and a rate is established after the award is made, indirect costs will be recognized only for the period beginning from the first date of the month in which the indirect cost proposal is submitted.

When indirect costs are awarded on the basis of a provisional rate, adjustments to the indirect costs awarded will not be made until a final rate reflecting an institution's actual costs is established, sometime after completion of the grantee's or contractor's fiscal year. Occasionally, however, because of unforeseen major fluctuations in an institution's activities, revision of the established provisional indirect cost rate may be necessary. But even in such cases, interim adjustments generally will not be made to awards already made unless the net effect of the rate revision on all DHEW grants and contracts affected exceeds either $100,000 or 20% of the total costs of the grants/contracts to which the rate applies.

Adjustments to grants and contract public vouchers resulting from the finalization of indirect cost rates for periods when provisional indirect cost rates were used must be initiated by the grantee/contractor institution. A summary report of expenditures sheet, for use in adjusting affected DHEW grants, is presented in Section V, Appendix 4 of this brochure. This summary must be submitted within one year after the date of execution of the Negotiation Agreement, to the Indirect Cost Management Section, Office of Financial Management, National Institutes of Health, Bethesda, Maryland, 20014. Adjustments to public vouchers must be in accordance with the Department's procurement regulations.

Disputes

On rare occasions, the DHEW Regional Comptroller and an institution may not be able to reach agreement on what constitutes an acceptable indirect cost rate(s). In that event, the Regional Comptroller will make a unilateral determination of the rate(s) deemed acceptable to the Department and will notify the institution of that determination. The institution may appeal the determination in accordance with either the Department's Grants Appeals Regulation (45 CFR, Part 16) and implementing procedures or the special and general provisions of affected contracts, if any, but not both.

The Regional Comptroller will notify the institution of its right to appeal and the procedures to follow upon request by the institution. Notification will also be given at the time the institution is advised of the Regional Comptroller's unilateral determination.

Citation of Cost Principles

The cost principles in Section III, identified as FMC 73-8, dated December 19, 1973 (previously identified as OMB Circular A-21) have been adopted by DHEW as follows:

Applicable to:	Citation
DHEW grants other than those awarded by the Office of Education	Title 45, Part 74, Subpart Q
Office of Education grants	Title 45, Part 100, Subpart G
All DHEW contracts	Title 41 (Federal Procurement Regulations), Subpart 1.15.3

The principles are applicable to institutions of higher education performing on grants received directly by them and on work performed by them on subgrants or cost-type contracts under grants awarded to other DHEW grantees.

The same cost principles will be cited in DHEW cost-type contracts with institutions of higher education and on cost-type subcontracts awarded to institutions of higher education under DHEW prime cost-type contracts awarded to others.

Disclosure Statement Required by P.L. 91-379

Colleges and universities which receive defense prime contracts the total of which exceeds $10 million annually, are required to submit a Disclosure Statement, FORM CASB DS-2. Complete regulations and instructions concerning submission of the Disclosure Statement are contained in 4 CFR Parts 331 and 351, and Defense Procurement Circular 89. Colleges and universities which are required to submit a Disclosure Statement to the Department of Defense and which are under the audit and negotiation cognizance of DHEW should submit a copy of the statement to the DHEW Regional Comptroller.

SECTION II—GUIDELINES FOR PREPARING INDIRECT COST PROPOSALS

The mechanics of determining an indirect cost rate(s) at a college or university is dependent upon the annual dollar amount of Federal work incurred by the institution as direct costs and the complexity of the program(s) being supported. FMC 73-8 distinguishes between those institutions where the total direct cost of all federally supported work under research and educational service agreements exceeds $1 million in a fiscal year and those where the total direct cost is $1 million or less. Those institutions that incur $1 million or less a year in direct costs under Federal agreements for research and educational service (excluding direct payments by the institution to participants under educational service agreements for stipends, support, and similar costs, requiring little, if any, indirect cost support) may compute their rates using the simplified method contained in Section H of the Circular. Those institutions which incur more than $1 million per year in direct costs under Federal agreements for research and educational service must determine their rates through the application of cost finding techniques.

Simplified Method for Small Institutions—Section H

General

The simplified method permits those colleges and universities receiving relatively small amounts of Federal support to determine the approximate amount of indirect costs related to Federal programs without the need for the application of extensive (and perhaps costly) cost finding techniques. The approach assumes that administrative services are provided to all activities of the institution (instruction, research, auxiliary activities, etc.) in direct relation to the direct salary and wage costs incurred in the performance of those activities.

The computation is based primarily on data taken directly from the institution's annual financial statements and can be summarized in three major steps:

1. the elimination of capital expenditures and unallowable costs from expenses reported on the financial statements.

2. the segregation of the adjusted expenses between those incurred for indirect functions (indirect costs) and those incurred for all other functions (direct costs).

3. the development of a ratio between the indirect costs and the total salaries and wages included in the direct costs. The percentage derived constitutes the indirect cost rate. A sample computation is included as Exhibit B-1 of Appendix 1, in Section V.

The formula approach provided under the simplified method has limitations which may preclude its use at some institutions because the application of the abbreviated procedures to the available data may produce a result which appears inequitable to the Government or the institution. In such a case, indirect costs should be determined by the regular procedures through use of cost finding techniques.

Cost Finding Techniques

Those institutions whose direct costs on Federally supported research and educational service agreements (less certain exclusions) exceeds $1 million dollars in a fiscal year must determine their indirect cost rate(s) using sound cost finding techniques. These techniques require an analysis of the research, instructional, and other activities conducted by an institution to determine the type and level of administrative and other services supporting them and the most appropriate unit(s) of measure for allocating the costs of these supporting services to the benefiting activities in reasonable proportion to the services rendered to them. The cost of the supporting services is then distributed by the use of work sheets to those activities serviced.

FMC 73-8 provides for the development of separate rates for the organized research and the educational service agreement activities of a college or university. The computation of an organized research rate is described in Section G, Attachment A of the Circular; the computation of an educational service agreement rate is described in Attachment B of the Circular.

Research rates and educational service agreement rates for a given period must be computed concurrently in a consistent manner, e.g., if fringe benefits are treated as indirect costs in the research rate computation, they must be similarly treated in the educational service agreement computation. The need for consistent treatment is a basic consideration in determining factors affecting allowability of costs (FMC 73-8, Attachment A, Section C.2.(c)). Additional requirements for consistency in estimating, accumulating, reporting, and allocating costs are provided in Attachment C of FMC 73-8.

An exception to the need for consistent treatment is recognized by FMC 73-8 for accumulating and allocating student service costs. The research cost principles (Attachment A, Section J.41.) states that student services costs apply only to instruction but that in the case of students actually engaged in work under research agreements, a proportion of student services costs measured by the relationship between hours of work by students on such research work and total student hours including all research time may be allowed as a part of research administration expenses.

The cost principles for training and other educational services (Attachment B, Section D) provide for the accumulation of student services costs and student administration costs as a single category of indirect costs. Attachment B further provides that these expenses should be allocated on the basis of population served (computed on the basis of full-time equivalents including students, faculty, and others as appropriate) or other methods which will result in an equitable distribution to cost objectives in relation to the benefits received and be consistent with guides provided in Section E.2. of Attachment A.

It will be acceptable to first accumulate and allocate student services costs to research by using the method in Section J.41., Attachment A, and to then combine the remaining student services costs with student administration costs and allocate this category of indirect costs to training and other educational services using the method in Attachment B.

The computation of an indirect cost rate(s) involves seven basic steps:

1. the identification of an institution's total direct functions and activities and the identification of the administrative and other activities furnishing support to those functions and activities;

2. the elimination of capital expenditures and unallowable costs;

3. the segregation of those supporting activities which:

   a. support one direct function or activity (e.g., organized research) only,

   b. support more than one function or activity.

4. the further segregation of the supporting activities, if necessary, to reflect extraordinary or less than normal services: (a) to particular groupings of functions or activities, or (b) to off-site or other special projects or programs. Special rates may be appropriate in those circumstances described in FMC 73-8, Attachment A, Section E.2.d. and G.1.b;

5. the selection of allocation bases (square feet, number of students or faculty, salaries and wages, etc.) to apportion the cost of these supporting activities in reasonable relationship to the services rendered;

6. the allocation of the costs of the supporting activities to the direct functions and activities;

7. the establishment of separate indirect cost rates(s) based on (a) the relationship between total indirect costs allocated to all organized research and the total direct salaries and wages* of persons engaged in organized research and (b) the relationship between total indirect costs allocated to educational service agreements and the total direct salaries and wages of persons engaged in the performance of those agreements.

Sample computations are included as Appendix 1.

In all instances, the sophistication of the cost finding techniques used, the number of cost pool sub-groupings and the indirect cost rates developed should be governed by the fairness of the end result to the Government and the institution, recognizing the amount of money involved and the ultimate recovery to the institution.

Donated (Contributed) Services

The value of voluntary or donated services provided by non-paid workers (e.g., members of a religious order) is not an allowable cost although it generally may be counted towards cost sharing or matching requirements. However, the fair market value of volunteer or donated services performed as a direct cost activity must be included in the determination of the indirect cost rate(s) and must have allocated to it a proportionate share of indirect costs. This concept is applicable to both the regular procedures for determining indirect costs and to the simplified method (Section H). Exhibit B-2 of Appendix 1 in Section V illustrates a sample Section H computation with donated services.

*NOTE: A direct cost base other than salaries and wages may be used where it can be demonstrated that greater equity results.

SECTION III - FRINGE BENEFIT AND OTHER SPECIAL RATES

Fringe Benefits

Fringe benefits are allowances and services provided by an institution to its employees as compensation in addition to regular wages and salaries. It also includes payments made by an employer on behalf of employees. Costs of fringe benefits are allowable:

a. To the extent required by law,

b. To the extent required by employer-employee agreement,

c. Provided that benefits are granted in accordance with established institutional policies,

d. If together with all other compensation paid to an employee is reasonable in amount, and

e. Provided they are absorbed by all institutional functions and activities in a manner consistent with the pattern of benefits accruing to the individuals or groups of employees whose salaries and wages are included in each function or activity.

There are many types of fringe benefits. Among the most common are pay for vacation, sick, and military leave, holidays, and contributions by the employer for social security, employee health and life insurance, workmen's compensation, and pension plans. The treatment of fringe benefits vary from institution to institution. Some institutions treat all fringe benefits as indirect costs. Others treat some fringe benefits as direct costs and others as indirect costs. The Department of Health, Education, and Welfare will recognize these variations of treatment if they otherwise meet the requirements for allowability listed above.

The direct costing of fringe benefits may be accomplished by identifying the specific cost of each fringe benefit of each individual employee and allocating that cost to each project or activity in proportion to the time or effort that an employee charges to it. Practical difficulties usually preclude this approach, however. Instead, institutions normally accumulate the costs associated with fringe benefits in one or more cost groupings. These cost groupings are then distributed to benefiting direct activities and projects in proportion to the direct salaries and wages charged to those activities and projects through a fringe benefit rate(s).

A fringe benefit rate(s) may be used to assess individual Federal grants and contracts for the fringe benefits applicable to charged direct salaries and wages.

Institutions which charge Federal grants or contracts for fringe benefits must substantiate the amount claimed. If fringe benefits are treated as indirect costs, the documentation must be submitted as part of the indirect cost proposal. If fringe benefits are treated as direct costs, a fringe benefit proposal will be required when requested by the Regional Comptroller. The proposals, when requested, must be submitted yearly and should accompany the institution's indirect cost proposal that is submitted to the Office of the Regional Comptroller at the address listed elsewhere in this brochure. The Office of the Regional Comptroller will evaluate the institution's fringe benefit proposal and negotiate a rate(s) for use on Federal programs. The negotiated fringe benefit rate(s) will be shown on the same negotiation agreement used for indirect costs.

The fringe benefit proposal should contain sufficient information on each benefit, each base used to distribute the cost, and on adjustments to prior years' costs, to allow the Federal negotiator to make an informed evaluation of the proposal. Existing written fringe benefit policies should be submitted together with an institution's initial proposal. Thereafter, only policy changes need be submitted with subsequent proposals. Institutions whose fringe benefits include pension costs must submit a copy of the pension plan(s) together with pertinent actuarial reports, if any, with their initial proposal. Thereafter only changes to the plan(s) and current actuarial reports need be submitted. The information submitted must describe the class of employees covered, employee vesting rights, whether the plan is contributory or non-contributory, defined contribution or defined benefit, and the treatment of:

(a) Past service pension costs,

(b) Realized and unrealized gains and losses on pension fund investments,

(c) Funding policies and practices including the actuarial or other basis for the amount funded.

Special Cost Centers

Many institutions operate computer, animal care or other service centers, units or facilities whose output is susceptible of measurement on a workload or other quantitative basis. The costs associated with these units or facilities, where material in amount, should be set aside as a separate cost grouping and charged to activities and projects in proportion to services rendered. Commonly, such charges are made through hourly rates or service fees. The cost of these centers include their direct costs (staff, supplies, supervision, travel, etc.) and their proportionate share of indirect costs. Institutions must be prepared to substantiate their charges for special service centers through the submission of a cost proposal.

The Regional Comptroller for the region in which an institute is located has been designated as the responsible official for the approval of service center charges. Institutions should submit their proposals to the Regional Comptroller at his request.

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PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO RESEARCH AND DEVELOPMENT UNDER GRANTS AND CONTRACTS WITH EDUCATIONAL INSTITUTIONS

Note

Although these cost principles were developed for use on research agreements and educational service agreements performed in colleges and universities, the concepts and procedures apply equally to non-research agreements and should be followed by colleges and universities in identifying and measuring the costs of non-research projects.

The principles contained herein were in effect as of the publication date of the brochure. The principles are subject to change, however, and colleges and universities are advised to consult the official policies of the Department as contained in the Code of Federal Regulations, the HEW Procurement Regulations (for contracts) and the DHEW Grants Administration Manual (for grants).

Colleges and universities may also readily ascertain if revisions have been made at any point in time by contacting the Office of the Regional Comptroller listed in Section I.

ATTACHMENT A
Federal Management
Circular 73-8
December 19, 1973

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO RESEARCH AND DEVELOPMENT UNDER GRANTS AND CONTRACTS WITH EDUCATIONAL INSTITUTIONS

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ATTACHMENT A
Federal Management Circular 73-8
December 19, 1973

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO RESEARCH AND DEVELOPMENT UNDER GRANTS AND CONTRACTS WITH EDUCATIONAL INSTITUTIONS

A. Purpose and Scope.

1. *Objectives.* This Circular provides principles for determining the costs applicable to research and development work performed by educational institutions under grants from and contracts with the Federal Government. These principles are confined to the subject of cost determination and make no attempt to identify the circumstances or dictate the extent of agency and institutional participation in the financing of a particular research or development project. The principles are designed to provide recognition of the full allocated costs of such research work under generally accepted accounting principles. No provision for profit or other increment above cost is intended.

2. *Policy guides.* The successful application of these principles requires development of mutual understanding between representatives of universities and of the Federal Government as to their scope, implementation, and interpretation. It is recognized that—

a. The arrangements for agency and institutional participation in the financing of a research and development project are properly subject to negotiation between the agency and the institution concerned in accordance with such Government-wide criteria as may be applicable.

b. Each college and university, possessing its own unique combination of staff, facilities and experience, should be encouraged to conduct research in a manner consonant with its own academic philosophies and institutional objectives.

c. Each institution, in the fulfillment of its obligations, should employ sound management practices.

d. The application of the principles established herein should require no significant changes in the generally accepted accounting practices of colleges and universities.

e. Cognizant Federal agencies involved in negotiating indirect cost rates and auditing should assure that institutions are generally applying the cost principles and standards herein provided on a consistent basis. Where wide variations exist in the treatment of a given cost item among institutions, the reasonableness and equitableness of such treatments should be fully considered during the rate negotiations and audit.

3. *Application.* All Federal agencies that sponsor research and development work at educational institutions should apply these principles and related policy guides in determining the costs incurred for such work under any type of research and development agreement. These principles should also be used as a guide in the pricing of fixed price contracts or lump sum agreements.

B. Definition of Terms.

1. *Organized research* means all research activities of an institution that are separately budgeted and accounted for.

2. *Departmental research* means research activities that are not separately budgeted and accounted for. Such research work, which includes all research activities not encompassed under the term *organized research,* is regarded for purposes of this document as a part of the instructional activities of the institution.

3. *Research agreement* means any valid arrangement to perform federally sponsored research, including grants, cost-reimbursement type contracts, cost-reimbursement type subcontracts, and fixed-price contracts and subcontracts for research.

4. *Other institutional activities* means all organized activities of an institution not directly related to the instruction and research functions, such as residence halls, dining halls, student hospitals, student unions, intercollegiate athletics, bookstores, faculty housing, student apartments, guest houses, chapels, theaters, public museums, and other similar activities or auxiliary enterprises. Also included under this definition is any other category of cost treated as "unallowable," provided such category of cost identifies a function or activity to which a portion of the institution's indirect costs (as defined in section E.1.) are properly allocable.

5. *Apportionment* means the process by which the indirect costs of the institution are assigned as between (a) instruction and research, and (b) other institutional activities.

6. *Allocation* means the process by which the indirect costs apportioned to instruction and research are assigned as between (a) organized research and (b) instruction, including departmental research.

7. *Stipulated salary support* is a fixed or a stated dollar amount of the salary of professorial or other professional staff involved in the conduct of research which a Government agency agrees in advance to reimburse an educational institution as a part of sponsored research costs.

C. Basic Considerations.

1. *Composition of total costs.* The cost of a research agreement is comprised of the allowable direct costs incident to its performance, plus the allocable portion of the allowable indirect costs of the institution, less applicable credits as described in section C.5.

2. *Factors affecting allowability of costs.* The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to research agreements under the standards and methods provided herein; (c) they must be accorded consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the research agreement as to types or amounts of cost items.

3. *Reasonable costs.* A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefor, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are: (a) whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the research agreement; (b) the restraints or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and research agreement terms and conditions; (c) whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Government, and the public at large; and (d) the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including Government research.

4. *Allocable costs.*

a. A cost is allocable to a particular cost objective (i.e., a specific function, project, research agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a research agreement if it is incurred solely to advance the work under the research agreement; or it benefits both the research agreement and other work of the institution in proportions that can be approximated through use of reasonable methods; or it is necessary to the overall operation of the institution and, in the light of the standards provided in this Circular, is deemed to be assignable in part to organized research. Where the purchase of equipment or other capital items is specifically authorized under a research agreement, the amounts thus authorized for such purchases are allocable to the research agreement regardless of the use that may subsequently be made of the equipment or other capital items involved.

b. Any costs allocable to a particular research agreement under the standards provided in this Circular may not be shifted to other research agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the research agreement, or for other reasons of convenience.

5. *Applicable credits.*

a. The term applicable credits refers to those receipt or negative expenditure types of transactions which operate to offset or reduce expense items that are allocable to research agreements as direct or indirect costs. Typical examples of such transactions are: purchase discounts, rebates, or allowances; recoveries or indemnities on losses; sales of scrap or incidental services; and adjustments of overpayments or erroneous charges.

b. In some instances, the amounts received from the Federal Government to finance institutional activities or service operations should be treated as applicable credits. Specifically, the concept of netting such credit items against related expenditures should be applied by the institution in determining the rates or amounts to be charged to Government research for services rendered whenever the facilities or other resources used in providing such services have been financed directly, in whole or in part, by Federal funds. (See sections F.6., J.10.b., and J.37. for areas of potential application in the matter of direct Federal financing.)

6. *Costs incurred by State and local governments.* Costs incurred or paid by State or local governments in behalf of educational institutions for certain personnel benefit programs such as pension plans, FICA and any other costs specifically disbursed in behalf of and in direct benefit to the institutions, are allowable costs of such institutions whether or not these costs are recorded in the accounting records of such institutions, subject to the following:

a. Such costs meet the requirements of sections C.1. through C.5.

b. Such costs are properly supported by cost allocation plans in accordance with Federal Management Circular 74-4.

c. Such costs are not otherwise borne directly or indirectly by the Federal Government.

D. Direct Costs.

1. *General.* Direct costs are those costs which can be identified specifically with a particular research project, an instructional activity or any other institutional activity or which can be directly assigned to such activities relatively easily with a high degree of accuracy.

2. *Application to research agreements.* Identifiable benefit to the research work rather than the nature of the goods and services involved is the determining factor

in distinguishing direct from indirect costs of research agreements. Typical transactions chargeable to a research agreement as direct costs are the compensation of employees for performance of work under the research agreement, including related staff benefit and pension plan costs to the extent that such items are consistently treated by the educational institution as direct rather than indirect costs; the costs of materials consumed or expended in the performance of such work; and other items of expense incurred for the research agreement, including extraordinary utility consumption. The cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be included as direct costs of research agreements provided such items are consistently treated by the institution as direct rather than indirect costs and are charged under a recognized method of costing or pricing designed to recover only actual costs and conforming to generally accepted cost accounting practices consistently followed by the institution.

E. Indirect Costs.

1. *General.* Indirect costs are those that have been incurred for common or joint objectives and therefore cannot be identified specifically with a particular research project, an instructional activity or any other institutional activity. At educational institutions such costs normally are classified under the following functional categories: general administration and general expenses; research administration expenses; operation and maintenance expenses; library expenses; and departmental administration expenses.

2. *Criteria for distribution.*

a. *Base period.* A base period for distribution of indirect costs is the period during which such costs are incurred and accumulated for distribution to work performed within that period. The base period normally should coincide with the fiscal year established by the institution, but in any event the base period should be so selected as to avoid inequities in the distribution of costs.

b. *Need for cost groupings.* The overall objective of the allocation and apportionment process is to distribute the indirect costs described in section F to organized research, instruction, and other activities in reasonable proportions consistent with the nature and extent of the use of the institution's resources by research personnel, academic staff, students, and other personnel or organizations. In order to achieve this objective, it may be necessary to provide for selective distribution by establishing separate groupings of cost within one or more of the functional categories of indirect costs referred to in section E.1. In general, the cost groupings established within a functional category should constitute, in each case, a pool of those items of expense that are considered to be of like character in terms of their relative contribution to (or degree of remoteness from) the particular cost objectives to which distribution is appropriate. Cost groupings should be established considering the general guides provided in c. below. Each such pool or cost grouping should then be distributed individually to the appertaining cost objectives, using the distribution base or method most appropriate in the light of the guides set out in d. below.

c. *General considerations on cost groupings.* The extent to which separate cost groupings and selective distribution would be appropriate at an institution is a matter of judgment to be determined on a case-by-case basis. Typical situations which may warrant the establishment of two or more separate cost groups (based on account classification or analysis) within a functional category include but are not limited to the following:

(1) Where certain items or categories of expense relate solely to one of the three major divisions of the institution (instruction, organized research or other institutional activities) or to any two but not the third, such expenses should be set aside as a separate cost grouping for direct assignment or selective distribution in accordance with the guides provided in b. above and d. below.

(2) Where any types of expense ordinarily treated as general administration and general expenses or departmental administration expenses are charged to research agreements as direct costs, the similar type expenses applicable to other activities of the institution must, through separate cost groupings, be excluded from the indirect costs allocable to those research agreements and included in the direct cost of other activities for cost allocation purposes.

(3) Where it is determined that certain expenses are for the support of a service unit or facility whose output is susceptible of measurement on a workload or other quantitative basis, such expenses should be set aside as a separate cost grouping for distribution on such basis to organized research and other activities at the institution or within the department.

(4) Where organized activities (including identifiable segments of organized research as well as the activities cited in section B.4.) provide their own purchasing, personnel administration, building maintenance or similar service, the distribution of general administration and general expenses or operation and maintenance expenses to such activities should be accomplished through cost groupings which include only that portion of central indirect costs (such as for overall management) which are properly allocable to such activities.

(5) Where the institution elects to treat as indirect charges the cost of the pension plan and other staff benefits, such costs should be set aside as a separate cost grouping for selective distribution to appertaining cost objectives, including organized research.

(6) The number of separate cost groupings within a functional category should be held within practical limits, after taking into consideration the materiality of the amounts involved and the degree of precision attainable through less selective methods of distribution.

d. *Selection of distribution method.*

(1) Actual conditions must be taken into account in selecting the method or base to be used in distributing to applicable cost objectives the expenses assembled under each of the individual cost groupings established as indicated under b. above. Where a distribution can be made by assignment of a cost grouping directly to the area benefited, the distribution should be made in that manner. Where the expenses under a cost grouping are more general in nature, the distribution to appertaining cost objectives should be made through use of a selected base which will produce results that are equitable to both the Government and the institution. In general, any cost element or cost-related factor associated with the institution's work is potentially adaptable for use as a distribution base provided (a) it can readily be expressed in terms of dollars or other quantitative measure (total direct expenditures, direct salaries, man-hours applied, square feet utilized, hours of usage, number of documents processed, population served, and the like); and (b) it is common to the appertaining cost objectives during the base period.

(2) Results of cost analysis studies may be used when they result in more accurate and equitable distribution of costs. Such cost analysis studies may take into consideration weighting factors, population, or space occupied if they produce equitable results. Cost analysis studies, however, should (a) be appropriately documented in sufficient detail for subsequent review by the cognizant Federal agency, (b) distribute the indirect costs to the appertaining cost objectives in accord with the relative benefits derived, (c) be conducted to fairly reflect the true conditions of the activity and to cover representative transactions for a reasonable period of time, (d) be performed specifically at the institution at which the results are to be used, and (e) be updated periodically and used consistently. Any assumptions made in the study will be sufficiently supported. The use of cost analysis studies and periodic changes in the method of cost distribution must be fully justified.

(3) The essential consideration in selection of the distribution base in each instance is that it be the one best suited for assigning the pool of costs to appertaining cost objectives in accord with the relative benefits derived; the traceable cause and effect relationship; or logic and reason, where neither benefit nor cause and effect relationship is determinable.

3. *Administration of limitations on allowances for research costs.* Research agreements may be subject to statutory or administrative policies that limit the allowance of research costs. When the maximum amount allowable under a statutory limitation or the terms of a research agreement is less than the amount otherwise reimbursable under this Circular, the amount not recoverable under that research agreement may not be charged to other research agreements.

F. Identification and Assignment of Indirect Costs.

1. *General administration and general expenses.*

a. The expenses under this heading are those that have been incurred for the general executive and administrative offices of educational institutions and other expenses of a general character which do not relate solely to any major division of the institution; i.e., solely to (1) instruction, (2) organized research, or (3) other institutional activities. The general administration and general expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowances and/or depreciation applicable to the buildings and equipment utilized in performing the functions represented thereunder.

b. The expenses included in this category may be apportioned and allocated on the basis of total expenditures exclusive of capital expenditures in situations where the results of the distribution made on this basis are deemed to be equitable both to the Government and the institution; otherwise the distribution of general administration and general expenses should be made through use of selected bases applied to separate cost groupings established within this category of expenses in accordance with the guides set out in section E.2.d.

2. *Research administration expenses.*

a. The expenses under this heading are those that have been incurred by a separate organization or identifiable administrative unit established solely to administer the research activity, including such functions as contract administration, security, purchasing, personnel administration, and editing and publishing of research reports. They include the salaries and expenses of the head of such research organization, his assistants, and their immediate secretarial staff together with the salaries and expenses of personnel engaged in supporting activities maintained by the research organization, such as stock rooms, stenographic pools, and the like. The salaries of members of the professional staff whose appointments or assignments involve the performance of such administrative work may also be included to the extent that the portion so charged to research administration is supported as required by section J.7. The research administration expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowance and/or depreciation applicable to the buildings and equipment utilized in performing the functions represented thereunder.

b. The expenses included in this category should be allocated to organized research and, where necessary, to departmental research or to any other benefiting activities on any basis reflecting the proportion fairly applicable to each. (See section E.2.d.)

3. *Operation and maintenance expenses.*

a. The expenses under this heading are those that have been incurred by a central service organization or at the departmental level for the administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant. They include expenses normally incurred for such items as janitorial and utility services; repairs and ordinary or normal alterations of buildings, furniture and equipment; and care of grounds and maintenance and operation of buildings and other plant facilities. The operation and maintenance expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, and charges representing use allowance and/or depreciation applicable to the buildings and equipment utilized in performing the functions represented thereunder.

b. The expenses included in this category should be apportioned and allocated to applicable cost objectives in a manner consistent with the guides provided in section E.2. on a basis that gives primary emphasis to space utilization. The allocations and apportionments should be developed as follows: (1) where actual space and related cost records are available or can readily be developed and maintained without significant change in the accounting practices, the amount distributed should be based on such records; (2) where the space and related cost records maintained are not sufficient for purposes of the foregoing, a reasonable estimate of the proportion of total space assigned to the various cost objectives normally will suffice as a means for effecting distribution of the amounts of operation and maintenance expenses involved; or (3) where it can be demonstrated that an area or volume of space basis of allocation is impractical or inequitable, other bases may be used provided consideration is given to the use of facilities by research personnel and others, including students.

4. *Library expenses.*

a. The expenses under this heading are those that have been incurred for the operation of the library, including the costs of books and library materials purchased for the library, less any items of library income that qualify as applicable credits under section C.5. The library expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowances and/or depreciation applicable to the buildings and equipment utilized in the performance of the functions represented thereunder. Costs incurred in the purchases of rare books (museum-type books) with no research value should not be allocated to Government-sponsored research.

b. The expenses included in this category should be allocated on the basis of population including students and other users. Where the results of the distribution made on this basis are deemed to be inequitable to the Government or the institution, the distribution should then be made on a selective basis in accordance with the guides set out in section E.2. Such selective distribution should be made through use of reasonable methods which give adequate recognition to the utilization of the library attributable to faculty, research personnel, students and others. The method used will be based on data developed periodically on the respective institution's experience for representative periods.

5. *Departmental administration expenses.*

a. The expenses under this heading are those that have been incurred in academic deans' offices, academic departments and organized research units such as institutes, study centers and research centers for administrative and supporting services which benefit common or joint departmental activities or objectives. They include the salaries and expenses of deans or heads, or associate deans or heads, of colleges, schools, departments, divisions, or organized research units; and their administrative staffs together with the salaries and expenses of personnel engaged in supporting activities maintained by the department, such as stockrooms, stenographic pools, and the like provided such supporting services cannot be directly identified with a specific research project, with an instructional activity or with any other institutional activity. The salaries of other members of the professional staff whose appointments or assignments involve the performance of such administrative work may also be included to the extent that the portion so charged to departmental administration expenses is supported as required by section J.7. The departmental administration expense category should also include the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the costs of the operation and maintenance of the physical plant, and charges representing use allowances and/or depreciation applicable to the buildings and equipment utilized in performing the functions represented thereunder.

b. The distribution of departmental administration expenses should be made through use of selected bases applied to cost groupings established within this category of expenses in accordance with the guides set out in section E.2.d.

6. *Setoff for indirect expenses otherwise provided for by the Government.*

a. The items to be accumulated under this heading are the reimbursements and other receipts from the Federal Government which are used by the institution to support directly, in whole or in part, any of the administrative or service (indirect) activities described in the foregoing (sections F.1. through F.5.). They include any amounts thus applied to such activities which may have been received pursuant to an institutional base grant or any similar contractual arrangement with the Federal Government other than a research agreement as herein defined (section B.3.).

b. The sum of the items in this group shall be treated as a credit to the total indirect cost pool before it is apportioned to organized research and to other activities. Such setoff shall be made prior to the determination of the indirect cost rate or rates as provided in section G.

G. Determination and Application of Indirect Cost Rate Or Rates.

1. *Indirect cost pools.*

a. Subject to b. below, indirect costs allocated to organized research should be treated as a common pool, and the costs in such common pool should then be distributed to individual research agreements benefiting therefrom on a single rate basis.

b. In some instances a single rate basis for use across the board on all Government research at an institution may not be appropriate, since it would not take into account those different environmental factors which may affect substantially the indirect costs applicable to a particular segment of Government research at the institution. For this purpose, a particular segment of Government research may be that performed under a single research agreement or it may consist of research under a group of research agreements performed in a common environment. The environmental factors are not limited to the physical location of the work. Other important factors are the level of the administrative support required, the nature of the facilities or other resources employed, the scientific disciplines or technical skills involved, the organizational arrangements used, or any combination thereof. Where a particular segment of Government research is performed within an environment which appears to generate a significantly different level of indirect costs, provision should be made for a separate indirect cost pool applicable to such work. The separate indirect cost pool should be developed during the course of the regular distribution process, and the separate indirect cost rate resulting therefrom should be utilized provided it is determined that (1) such indirect cost rate differs significantly from that which would have obtained under a. above, and (2) the volume of research work to which such rate would apply is material in relation to other Government research at the institution.

2. *The distribution base.* Indirect costs allocated to organized research should be distributed to applicable research agreements on the basis of direct salaries and wages. For this purpose, an indirect cost rate should be determined for each of the separate indirect cost pools developed pursuant to section G.1. The rate in each case should be stated as the percentage which the amount of the particular indirect cost pool is of the total direct salaries and wages of all research agreements identified with such pool. For the purpose of establishing an indirect cost rate, direct salaries and wages may include that portion contributed to the research by the institution for cost sharing or other purposes. Bases other than salaries and wages may be used provided it can be demonstrated that they produce more equitable results.

3. *Negotiated lump sum for indirect costs.* A negotiated fixed amount in lieu of indirect costs may be appropriate for self-contained, off-campus, or primarily subcontracted research activities where the benefits derived from an institution's indirect services cannot be readily determined. Such amount negotiated in lieu of indirect costs will be treated as an offset to total indirect expenses before apportionment to instruction, organized research, and other institutional activities. The base on which such remaining expenses are allocated should be appropriately adjusted.

4. *Predetermined fixed rates for indirect costs.* Public Law 87-638 (76 Stat. 437) authorizes the use of predetermined fixed rates in determining the indirect costs applicable under research agreements with educational institutions. The stated objectives of the law are to simplify the administration of cost-type research and development contracts (including grants) with educational institutions, to facilitate the preparation of their budgets, and to permit more expeditious closeout of such contracts when the work is completed. In view of the potential advantages offered by this procedure, consideration should be given to the negotiation of predetermined fixed rates for indirect costs in those situations where the cost experience and other pertinent facts available are deemed sufficient to enable the parties involved to reach an informed judgment as to the probable level of indirect costs during the ensuing accounting period.

5. *Negotiated fixed rates and carryforward provisions.* When a fixed rate is negotiated in advance for a fiscal year (or other time period), the over- or under-recovery for that year may be included as an adjustment to the indirect cost for the next rate negotiation. When the rate is negotiated before the carryforward adjustment is determined due to the delay in audit, the carryforward may be applied to the next subsequent rate negotiation. When such adjustments are to be made, each fixed rate negotiated in advance for a given period will be computed by applying the expected indirect costs allocable to Government research for the forecast period plus or minus the carryforward adjustment (over- or under-recovery) from the prior period, to the forecast distribution base. Unrecovered amounts under lump-sum agreements or cost-sharing provisions of prior years shall not be carried forward for consideration in the new rate negotiation. There must, however, be an advance understanding in each case between the institution and the cognizant Federal agency as to whether these differences will be considered in the rate negotiation rather than making the determination after the differences are known. Further, institutions electing to use this carryforward provision may not subsequently change without prior approval of the cognizant Federal agency. In the event that an institution returns to a postdetermined rate, any over- or under-recovery during the period in which negotiated fixed rates and carryforward provisions were followed will be included in the subsequent postdetermined rates. Where multiple rates are used, the same procedure will be applicable for determining each rate. This procedure also applies to rates established for grants and contracts for training and other educational

services, but does not apply to cost-type research agreements covering work performed in wholly or partially Government-owned facilities.

H. Simplified Method for Small Institutions

1. *General.*

a. Where the total direct cost of all federally supported work under research and educational service agreements at an institution does not exceed $1,000,000 in a fiscal year (excluding direct payments by the institution to participants under educational service agreements for stipends, support, and similar costs requiring little, if any, indirect cost support), the use of the abbreviated procedure described in 2., below, may be used in determining allowable indirect costs. Under this abbreviated procedure, the institution's most recent annual financial report and immediately available supporting information, with salaries and wages segregated from other costs, will be utilized as a basis for determining the indirect cost rate applicable both to federally supported research and educational service agreements.

b. The rigid formula approach provided under this abbreviated procedure should not be used where it produces results which appear inequitable to the Government or the institution. In any such case, indirect costs should be determined through use of the regular procedure.

2. *Abbreviated procedure.*

a. Establish the total amount of salaries and wages paid to all employees of the institution.

b. Establish an indirect cost pool consisting of the expenditures (exclusive of capital items and other costs specifically identified as unallowable) which customarily are classified under the following titles or their equivalents:

(1) General administration and general expenses (exclusive of costs of student administration and services, student aid, student activities, and scholarships).

(2) Operation and maintenance of physical plant.

(3) Library.

(4) Department administration expenses, which will be computed as 20% of the salaries and expenses of deans and heads of departments.

In those cases where expenditures classified under 2.b.(1) and 2.b.(2) have previously been allocated to other institutional activities, they may be included in the indirect cost pool. The total amount of salaries and wages included in the indirect cost pool must be separately identified.

c. Establish a salary and wage distribution base, determined by deducting from the total of salaries and wages as established under 2.a. the amount of salaries and wages included under 2.b.

d. Establish the indirect cost rate, determined by dividing the amount in the indirect cost pool 2.b. by the amount of the distribution base 2.c.

e. Apply the indirect cost rate established to direct salaries and wages for individual agreements to determine the amount of indirect costs allocable to such agreements.

J. General Standards for Selected Items of Cost.

Sections J.1. through J.45. provide standards to be applied in establishing the allowability of certain items involved in determining cost. These standards should apply irrespective of whether a particular item of cost is properly treated as direct cost or indirect cost. Failure to mention a particular item of cost in the standards is not intended to imply that it is either allowable or unallowable; rather determination as to allowability in each case should be based on the treatment or standards provided for similar or related items of cost. In case of discrepancy between the provisions of a specific research agreement and the applicable standards provided, the provisions of the research agreement should govern.

1. *Advertising costs.* The term advertising costs means the costs of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television programs, direct mail, exhibits, and the like. The only advertising costs allowable are those which are solely for (a) the recruitment of personnel required for the performance by the institution of obligations arising under the research agreement, when considered in conjunction with all other recruitment costs, as set forth in J.32; (b) the procurement of scarce items for the performance of the research agreement; or (c) the disposal of scrap or surplus materials acquired in the performance of the research agreement. Costs of this nature, if incurred for more than one research agreement or for both research agreement work and other work of the institution, are allowable to the extent that the principles in sections D and E are observed.

2. *Bad debts.* Any losses, whether actual or estimated arising from uncollectible accounts and other claims, related collections costs, and related legal costs, are unallowable.

3. *Capital expenditures.* The costs of equipment, buildings, and repairs which materially increase the value or useful life of buildings or equipment, are unallowable except as provided for in the research agreement. Government funds shall not be used for the acquisition of land, or any interest therein, except with the specific prior approval of the sponsoring agency.

4. *Civil defense costs.* Civil defense costs are those incurred in planning for, and the protection of life and property against, the possible effects of enemy attack. Reasonable costs of civil defense measures (including costs in excess of normal plant protection costs, first-aid training and supplies, fire-fighting training, posting of additional exit notices and directions, and other approved civil defense measures) undertaken on the institution's premises pursuant to suggestions or requirements of civil defense authorities are allowable when distributed to all activities of the institution. Capital expenditures for civil defense purposes will not be allowed, but a use allowance or depreciation may be permitted in accordance with provisions set forth in section J.10. Costs of local civil defense projects not on the institution's premises are unallowable.

5. *Commencement and convocation costs.* Costs incurred for commencements and convocations apply only to instruction and therefore are not allocable to research agreements, either as direct costs or indirect costs.

6. *Communication costs.* Costs incurred for telephone services, local and long distance telephone calls, telegrams, radiograms, postage and the like, are allowable.

7. *Compensation for personal services.*

a. *General.* Compensations for personal services covers all remuneration paid currently or accrued to the institution for services of employees rendered during the period of performance under Government research agreements. Such remuneration includes salaries, wages, staff benefits (see section J.39.), and pension plan costs (see section J.23.). The costs of such remuneration are allowable to the extent that the total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the institution consistently applied, and provided that the charges for work performed directly on Government research agreements and for other work allocable as indirect costs to organized research are determined and supported as hereinafter provided.

b. *Payroll distribution.* Amounts charged to organized research for personal services, except stipulated salary support, regardless of whether treated as direct costs or allocated as indirect costs, will be based on institutional payrolls which have been approved and documented in accordance with generally accepted institutional practices. Support for direct and indirect allocations of personal service costs to (1) instruction, (2) organized research, and (3) indirect activities as defined in section E.1., or (4) other institutional activities as defined in section B.4., will be provided as described in c., d., e., and f., below.

c. *Stipulated salary support.* As an alternative to payroll distribution, stipulated salary support amounts may be provided in the research agreement for professorial staff, any part of whose compensation is chargeable to Government-sponsored research. Stipulated salary support may also be provided for any other professionals who are engaged part time in sponsored research and part time in other work. The stipulated salary support for an individual will be determined by the Government and the educational institution during the proposal and award process on the basis of considered judgment as to the monetary value of the contribution which the individual is expected to make to the research project. This judgment will take into account any cost sharing by the institution and such other factors as the extent of the investigator's planned participation in the project and his ability to perform as planned in the light of his other commitments. It will be necessary for those who review research proposals to obtain information on the total academic year salary of the faculty members involved; the other research projects or proposals for which salary is allocated; and any other duties they may have such as teaching assignments, administrative assignments, number of graduate students for which they are responsible, or other institutional activities. Stipulated amounts for an individual must not per se result in increasing his official salary from the institution.

d. *Direct charges for personal services under payroll distribution.* The direct cost charged to organized research for the personal services of professorial and professional staff, exclusive of those whose salaries are stipulated in the research agreement, will be based on institutional payroll systems. Such institutional payroll systems must be supported by either (1) an adequate appointment and workload distribution system accompanied by monthly reviews performed by responsible officials and a reporting of any significant changes in workload distribution of each professor or professional staff member, or (2) a monthly after-the-fact certification system which will require the individual investigators, deans, departmental chairmen or supervisors having first-hand knowledge of the services performed on each research agreement to report the distribution of effort. Reported changes will be incorporated during the accounting period into the payroll distribution system and into the accounting records. Direct charges for salaries and wages of nonprofessionals will be supported by time and attendance and payroll distribution records.

e. *Direct charges for personal services under stipulated salaries.* The amounts stipulated for salary support will be treated as direct costs. The stipulated salary for the academic year will be prorated equally over the duration of the grant or contract period during the academic year, unless other arrangements have been made in the grant or contract instrument. No time or effort reporting will be required to support these amounts. Special provision for summer salaries, or for a particular "off period" if other than summer, will be required. The research agreements will state that any research covered by summer salary support must be carried out during the summer, not during the academic year, and at locations approved in advance in writing by the granting agency. The certification required in section K will attest to this requirement as well as all others in a

given research agreement. Stipulated salary support remains fixed during the funding period of the grant or contract and will be costed at the rate described above unless there is a significant change in performance. For example, a significant change in performance would exist if the faculty member (1) was ill for an extended period, (2) took sabbatical leave to devote effort to duties unrelated to his research, or (3) was required to increase substantially his teaching assignments, administrative duties, or responsibility for more research projects. In the latter event, it will be the responsibility of the educational institution to reduce the charges to the research agreement proportionately or seek an appropriate amendment. In the case of those covered by stipulated salary support, the auditors are no longer required to review the precise accuracy of time or effort devoted to research projects. Rather, their reviews should include steps to determine on a sample basis that an institution is not reimbursed for more than 100 percent of each faculty member's salary and that the portion of each faculty member's salary charged to Government-sponsored research is reasonable in view of his university workload and other commitments. The stipulated salary method may also be agreed upon for that portion of a professional's salary that represents cost sharing by the institution.

f. *Indirect personal services costs.* Allowable indirect personal services costs will be supported by the educational institution's accounting system maintained in accordance with generally accepted institutional practices. Where a comprehensive accounting system does not exist, the institution should make periodic surveys no less frequently than annually to support the indirect personal services costs for inclusion in the overhead pool. Such supporting documentation must be retained for subsequent review by Government officials.

g. *General guidance for charging personal services.* Budget estimates on a monthly, quarterly, semester, or yearly basis do not qualify as support for charges to federally sponsored research projects and should not be used unless confirmed after the fact. Charges to research agreements may include reasonable amounts for activities contributing and intimately related to work under the agreement, such as preparing and delivering special lectures about specific aspects of the ongoing research, writing research reports and articles, participating in appropriate research seminars, consulting with colleagues and graduate students with respect to related research, and attending appropriate scientific meetings and conferences. In no case should charges be made to federally sponsored research projects for lecturing or preparing for formal courses listed in the catalog and offered for degree credit, or for committee or administrative work related to university business.

h. *Nonuniversity professional activities.* A university must not alter or waive university-wide policies and practices dealing with the permissible extent of professional services over and above those traditionally performed without extra university compensation, unless such arrangements are specifically authorized by the sponsoring agency. Where university-wide policies do not adequately define the permissible extent of consultantships or other nonuniversity activities undertaken for extra pay, the Government may require that the effort of professional staff working under research agreements be allocated as between (1) university activities, and (2) nonuniversity professional activities. If the sponsoring agency should consider the extent of nonuniversity professional effort excessive, appropriate arrangements governing compensation will be negotiated on a case-by-case basis.

i. *Salary rates for academic year.* Charges for work performed on Government research by faculty members during the academic year will be based on the individual faculty member's regular compensation for the continuous period which, under the practice of the institution concerned, constitutes the basis of his salary. Charges for work performed on research agreements during all or any portion of such period would be allowable at the base salary rate. In no event will the charge to research agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period, and any extra compensation above the base salary for work on Government research during such period would be unallowable. This principle applies to all members of the faculty at an institution. Since intra-university consulting is assumed to be undertaken as a university obligation requiring no compensation in addition to full-time base salary, the principle also applies to those who function as consultants or otherwise contribute to a research agreement conducted by another faculty member of the same institution. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the consultant is in addition to his regular departmental load, any charges for such work representing extra compensation above the base salary are allowable provided such consulting arrangement is specifically provided for in the research agreement or approved in writing by the sponsoring agency.

j. *Salary rates for periods outside the academic year.* Charges for work performed by faculty members on Government research during the summer months or other periods not included in the base salary period will be determined for each faculty member at a monthly rate not in excess of that which would be applicable under his base salary and will be limited to charges made in accordance with other subsections of J.7.

k. *Salary rates for part-time faculty.* Charges for work performed on Government research by faculty members having only part-time appointments for teaching will be determined at a rate not in excess of that for which he is regularly paid for his part-time teaching assignments. Example: An institution pays $5,000 to a faculty member for half-time teaching during the academic year. He devoted one-half of his remaining time (25% of his total available time) to Government research. Thus his additional compensation, chargeable by the institution to Government research agreements, would be one-half of $5,000 or $2,500.

8. *Contingency provisions.* Contributions to a contingency reserve or any similar provision made for events the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable.

9. *Deans of faculty and graduate schools.* The salaries and expenses of deans of faculty and graduate schools, or their equivalents, and their staffs, are allowable.

10. *Depreciation and use allowances.*

a. Institutions may be compensated for the use of buildings, capital improvements, and usable equipment on hand through use allowances or depreciation. Use allowances are the means of providing such compensation when depreciation or other equivalent costs are not considered. However, a combination of the two methods may not be used in connection with a single class of fixed assets.

b. Due consideration will be given to Government-furnished facilities utilized by the institution when computing use allowances and/or depreciation if the Government-furnished facilities are material in amount. Computation of the use allowance and/or depreciation will exclude both the cost or any portion of the cost of buildings and equipment borne by or donated by the Federal Government, irrespective of where title was originally vested or where it presently resides and, secondly, the cost of grounds. Capital expenditures for land improvements (paved areas, fences, streets, sidewalks, utility conduits and similar improvements not already included in the cost of buildings) are allowable provided the systematic amortization of such capital expenditures has been provided, based on reasonable determinations of the probable useful lives of the individual items involved, and the share allocated to organized research is developed from the amount thus amortized for the base period involved. Amortization methods once used should not be changed for a given building or equipment unless approved in advance by the cognizant Federal agency.

c. Where the use allowance method is followed, the use allowance for buildings and improvements will be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost of usable and needed equipment in those cases where the institution maintains current records with respect to such equipment on hand. Where the institution's records reflect only the cost (actual or estimated) of the original complement of equipment, the use allowance will be computed at an annual rate not exceeding ten percent of such cost. Original complement for this purpose means the complement of equipment initially placed in buildings to perform the functions currently being performed in such buildings; however, where a permanent change in the function of a building takes place, a redetermination of the original complement of equipment may be made at that time to establish a new original complement. In those cases where no equipment records are maintained, the institution will justify a reasonable estimate of the acquisition cost of usable and needed equipment which may be used to compute the use allowance at an annual rate not exceeding six and two-thirds percent of such estimate.

d. Where the depreciation method is followed, adequate property record must be maintained and periodic inventory (a statistical sampling basis is acceptable) must be taken to insure that properties for which depreciation is charged do exist and are needed. The period of useful service (service life) established in each case for usable capital assets must be determined on a realistic basis which takes into consideration such factors as type of construction, nature of the equipment used, technological developments in the particular research area, and the renewal and replacement policies followed for the individual items or classes of assets involved. Where the depreciation method is introduced for application to assets acquired in prior years, the annual charges therefrom must not exceed the amounts that would have resulted had the depreciation method been in effect from the date of acquisition of such assets.

e. Where an institution elects to go to a depreciation basis for a particular class of assets, no depreciation, rental or use charge may be allowed on any such assets that, under d. above, would be viewed as fully depreciated provided, however, that reasonable use charges may be negotiated for any such assets if warranted after taking into consideration the cost of the facility or item involved, the estimated useful life remaining at time of negotiation, the actual replacement policy followed in the light of service lives used for calculating depreciation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the facility or item for the purpose contemplated.

11. *Employee morale, health, and welfare costs and credits.* The costs of house publications, health or first-aid clinics and/or infirmaries, recreational activities, employees' counseling services, and other expenses incurred in accordance with the institution's established practice or custom for the improvement of working conditions, employee relations, employee morale, and employee performance, are allowable. Such costs will be equitably apportioned to all activities of the institution. Income generated from any of these activities will be credited to the cost thereof unless such income has been irrevocably set over to employee welfare organizations.

12. *Entertainment costs.* Costs incurred for amusement, social activities, entertainment, and any items relating thereto, such as meals, lodging, rentals, transportation, and gratuities, are unallowable.

13. *Equipment and other facilities.* The cost of permanent equipment or other facilities are allowable where such purchases are approved by the sponsoring agency concerned or provided for by the terms of the

research agreement. Total expenditures for permanent equipment may not exceed 125 percent of the amount allotted for the permanent equipment category by the sponsoring agency (through an approved budget or other document) except with approval. The term "permanent equipment" shall mean an item of property which has an acquisition cost of $200 or more and has an expected service life of one year or more.

a. *General purpose equipment.* Approval must be obtained to acquire with Government funds any general purpose permanent equipment, i.e., any items which are usable for activities of the institution other than research, such as office equipment and furnishings, air conditioning, reproduction or printing equipment, motor vehicles, etc., or any automatic data processing equipment.

b. *Research equipment.* Approval must be obtained to acquire with Government funds any item of permanent research equipment costing $1,000 or more.

14. *Fines and penalties.* Costs resulting from violations of, or failure of the institution to comply with, Federal, State, and local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the research agreement, or instructions in writing from the contracting officer.

15. *Insurance and indemnification.*

a. Costs of insurance required or approved, and maintained, pursuant to the research agreement, are allowable.

b. Costs of other insurance maintained by the institution in connection with the general conduct of its activities, are allowable subject to the following limitations: (1) types and extent and cost of coverage must be in accordance with sound institutional practice; (2) costs of insurance or of any contributions to any reserve covering the risk of loss of or damage to Government-owned property are unallowable except to the extent that the Government has specifically required or approved such costs; and (3) costs of insurance on the lives of officers or trustees are unallowable except where such insurance is part of an employee plan which is not unduly restricted.

c. Contributions to a reserve for an approved self-insurance program are allowable to the extent that the types of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.

d. Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the research agreement, except that costs incurred because of losses not covered under existing deductible clauses for insurance coverage provided in keeping with sound management practice as well as minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools, which occur in the ordinary course of operations, are allowable.

e. Indemnification includes securing the institution against liabilities to third persons and other losses not compensated by insurance or otherwise. The Government is obligated to indemnify the institution only to the extent expressly provided for in the research agreement, except as provided in d. above.

16. *Interest, fund raising, and investment management costs.*

a. Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable.

b. Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are not allowable under Government research agreements.

c. Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are not allowable under Government research agreements.

d. Costs related to the physical custody and control of monies and securities are allowable.

17. *Labor relations costs.* Costs incurred in maintaining satisfactory relations between the institution and its employees, including costs of labor management committees, employees' publications, and other related activities, are allowable.

18. *Losses on other research agreements or contracts.* Any excess of costs over income under any other research agreement or contract of any nature is unallowable. This includes, but is not limited to, the institution's contributed portion by reason of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for indirect costs.

19. *Maintenance and repair costs.* Costs incurred for necessary maintenance, repair or upkeep of property (including Government property unless otherwise provided for) which neither add to the permanent value of the property nor appreciably prolong its intended life but keep it in an efficient operating condition, are allowable.

20. *Material costs.* Costs incurred for purchased materials, supplies, and fabricated parts directly or indirectly related to the research agreement, are allowable. Purchases made specifically for the research agreemetn should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the institution. Withdrawals from general stores or stockrooms should

be charged at their cost under any recognized method of pricing stores withdrawals conforming to sound accounting practices consistently followed by the institution. Incoming transportation charges are a proper part of material cost. Direct material cost should include only the materials and supplies actually used for the performance of the research agreement, and due credit should be given for any excess materials retained, or returned to vendors. Due credit should be given for all proceeds or value received for any scrap resulting from work under the research agreement. Where Government-donated or furnished material is used in performing the research agreement, such material will be used without charge.

21. *Memberships, subscriptions and professional activity costs.*

a. Costs of the institution's membership in civic, business, technical, and professional organizations are allowable.

b. Costs of the institution's subscriptions to civic, business, professional, and technical periodicals are allowable.

c. Costs of meetings and conferences, when the primary purpose is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, and other items incidental to such meetings or conferences.

22. *Patent costs.* Costs of preparing disclosures, reports, and other documents required by the research agreement and of searching the art to the extent necessary to make such invention disclosures, are allowable. In accordance with the clauses of the research agreement relating to patents, costs of preparing documents and any other patent costs, in connection with the filing of a patent application where title is conveyed to the Government, are allowable. (See also section J.33.)

23. *Pension plan costs.* Costs of the institution's pension plan which are incurred in accordance with the established policies of the institution are allowable, provided such policies meet the test of reasonableness and the methods of cost allocation are not discriminatory, and provided appropriate adjustments are made for credits or gains arising out of normal and abnormal employee turnover or any other contingencies that can result in forfeitures by employees which inure to the benefit of the institution.

24. *Plant security costs.* Necessary expenses incurred to comply with Government security requirements, including wages, uniforms and equipment of personnel engaged in plant protection, are allowable.

25. *Preresearch agreement costs.* Costs incurred prior to the effective date of the research agreement, whether or not they would have been allowable thereunder if incurred after such date, are unallowable unless specifically set forth and identified in the research agreement.

26. *Professional services costs.*

a. Costs of professional services rendered by the members of a particular profession who are not employees of the institution are allowable, subject to b. and c. below, when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Government. Retainer fees to be allowable must be reasonably supported by evidence of services rendered.

b. Factors to be considered in determining the allowability of costs in a particular case include (1) the past pattern of such costs, particularly in the years prior to the award of Government research agreements; (2) the impact of Government research agreements on the institution's total activity; (3) the nature and scope of managerial services expected of the institution's own organizations; and (4) whether the proportion of Government work to the institution's total activity is such as to influence the institution in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Government research agreements.

c. Costs of legal, accounting, and consulting services, and related costs, incurred in connection with organization and reorganization or the prosecution of claims against the Government, are unallowable. Costs of legal, accounting and consulting services, and related costs, incurred in connection with patent infringement litigation, are unallowable unless otherwise provided for in the research agreement.

27. *Profits and losses on disposition of plant, equipment, or other capital assets.* Profits or losses of any nature arising from the sale or exchange of plant, equipment, or other capital assets, including sale or exchange of either short- or long-term investments, shall not be considered in computing research agreement costs.

28. *Proposal costs.* Proposal costs are the costs of preparing bids or proposals on potential Government and nongovernment research agreements or projects, including the development of engineering data and cost data necessary to support the institution's bids or proposals. Proposal costs of the current accounting period of both successful and unsuccessful bids and proposals normally should be treated as indirect costs and allocated currently to all activities of the institution, and no proposal costs of past accounting periods will be allocable in the current period to the Government research agreement. However, the institution's established practices may be to treat proposal costs by some other recognized method. Regardless of the method used, the results obtained may be accepted only if found to be reasonable and equitable.

29. *Public information services costs.* Costs of news releases pertaining to specific research or scientific accomplishment are unallowable unless specifically authorized by the sponsoring agency.

30. *Rearrangement and alteration costs.* Costs incurred for ordinary or normal rearrangement and alteration of facilities are allowable. Special arrangement and alteration costs incurred specifically for the project are allowable when such work has been approved in advance by the sponsoring agency concerned.

31. *Reconversion costs.* Costs incurred in the restoration or rehabilitation of the institution's facilities to approximately the same condition existing immediately prior to commencement of Government research agreement work, fair wear and tear excepted, are allowable.

32. *Recruiting costs.*

a. Subject to b., c., and d. below, and provided that the size of the staff recruited and maintained is in keeping with workload requirements, costs of "help wanted" advertising, operating costs of an employment office necessary to secure and maintain an adequate staff, costs of operating an aptitude and educational testing program, travel costs of employees while engaged in recruiting personnel, travel costs of applicants for interviews for prospective employment, and relocation costs incurred incident to recruitment of new employees, are allowable to the extent that such costs are incurred pursuant to a well managed recruitment program. Where the institution uses employment agencies, costs not in excess of standard commercial rates for such services are allowable.

b. In publications, costs of help wanted advertising that includes color, includes advertising material for other than recruitment purposes, or is excessive in size (taking into consideration recruitment purposes for which intended and normal institutional practices in this respect), are unallowable.

c. Costs of help wanted advertising, special emoluments, fringe benefits, and salary allowances incurred to attract professional personnel from other institutions that do not meet the test of reasonableness or do not conform with the established practices of the institution, are unallowable.

d. Where relocation costs incurred incident to recruitment of a new employee have been allowed either as an allocable direct or indirect cost, and the newly hired employee resigns for reasons within his control within 12 months after hire, the institution will be required to refund or credit such relocation costs to the Government.

33. *Royalties and other costs for use of patents.* Royalties on a patent or amortization of the cost of acquiring a patent or invention or rights thereto, necessary for the proper performance of the research agreement and applicable to tasks or processes thereunder, are allowable unless the Government has a license or the right to free use of the patent, the patent has been adjudicated to be invalid or has been administratively determined to be invalid, the patent is considered to be unenforceable, or the patent has expired.

34. *Sabbatical leave costs.* Costs of leave of absence to employees for performance of graduate work or sabbatical study, travel, or research are allowable provided the institution has a uniform policy on sabbatical leave for persons engaged in instruction and persons engaged in research. Such costs will be allocated on an equitable basis among all appertaining activities of the institution. Where sabbatical leave is included in fringe benefits for which a cost is determined for assessment as a direct charge, the aggregate amount of such assessments applicable to all work of the institution during the base period must be reasonable in relation to the institution's actual experience under its sabbatical leave policy.

35. *Scholarships and student aid costs.* Costs of scholarships, fellowships and other forms of student aid apply only to instruction and therefore are not allocable to research agreements, either as direct costs or indirect costs. However, in the case of students actually engaged in work under research agreements, any tuition remissions to such students for work performed are allocable to such research agreements provided consistent treatment is accorded such costs. (See section J.39.)

36. *Severance pay.*

a. Severance pay is compensation in addition to regular salaries and wages which is paid by an institution to employees whose services are being terminated. Costs of severance pay are allowable only to the extent that such payments are required by law, by employer-employee agreement, by established policy that constitutes in effect an implied agreement on the institution's part, or by circumstances of the particular employment.

b. Severance payments that are due to normal, recurring turnover and which otherwise meet the conditions of a. above may be allowed provided the actual costs of such severance payments are regarded as expenses applicable to the current fiscal year and are equitably distributed among the institution's activities during that period.

c. Severance payments that are due to abnormal or mass terminations are of such conjectural nature that allowability must be determined on a case-by-case basis. However, the Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment.

37. *Specialized service facilities operated by institution:*

a. The costs, including amortization by generally accepted accounting practice, of institutional services involving the use of highly complex and specialized facilities such as electronic computers, including the cost of adapting computers for use, wind tunnels, and reactors are allowable provided the charges therefor meet the conditions of b. or c. below, and otherwise take into account any items of income or Federal financing that qualify as applicable credits under section C.5.

b. The costs of such institutional services normally will be charged directly to applicable research agreements based on actual usage or occupancy of the facilities on the basis of a schedule of rates that (1) is designed to recover only aggregate costs on providing such services over a long term agreed upon in advance by the cognizant Federal agency on an individual basis, and (2) is applied on a nondiscriminatory basis as between organized research and other work of the institution, including usage by the institution for internal purposes. Commercial or accommodation sales of computer services will be charged at not less than the above rates; however, if the rates charged for these services are greater, the total amount of charges above the scheduled rates when significant may be considered in revising the schedule of rates. Further, within the constraints of this paragraph, it is not necessary that the rates charged for services be equal to the cost of providing those services during any one fiscal year.

c. In the absence of an acceptable arrangement for direct costing as provided in b. above, the costs incurred for such institutional services may be assigned to research agreements as indirect costs, provided the methods used achieve substantially the same results. Such arrangements should be worked out in coordination with the cognizant Federal agency in order to assure equitable distribution of the indirect costs.

38. *Special services costs.* Costs incurred for general public relations activities, catalogs, alumni activities, and similar services, are unallowable.

39. *Staff benefits.*

a. Staff benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, military leave, and the like, are allowable provided such costs are absorbed by all institutional activities, including organized research, in proportion to the relative amount of time or effort actually devoted to each. (See section J.34. for treatment of sabbatical leave.)

b. Staff benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, the pension plan (see section J.23.), tuition or remission of tuition for individual employees or their families (see section J.35.), and the like, are allowable provided such benefits are granted in accordance with established institutional policies, and provided such contributions and other expenses, whether treated as indirect costs or as an increment of direct labor costs, are distributed to particular research agreements and other activities in a manner consistent with the pattern of benefits accruing to the individuals or groups of employees whose salaries and wages are chargeable to such research agreements and other activities.

40. *Student activity costs.* Costs incurred for intramural activities, student publications, student clubs, and other student activities, apply only to instruction and therefore are not allocable to research agreements, either as direct costs or indirect costs.

41. *Student services costs.* Costs of the deans of students, administration of student affairs, registrar, placement offices, student advisers, student health and infirmary services, and such other activities as are indentifiable with student services apply only to instruction and therefore are not allocable to research agreements, either as direct costs or indirect costs. However, in the case of students actually engaged in work under research agreements, a proportion of student services costs measured by the relationship between hours of work by students on such research work and total student hours including all research time may be allowed as a part of research administration expenses.

42. *Taxes.*

a. In general, taxes which the institution is required to pay and which are paid or accrued in accordance with generally accepted accounting principles, and payments made to local governments in lieu of taxes which are commensurate with the local government services received are allowable, except for (1) taxes from which exemptions are available to the institution directly or which are available to the institution based on an exemption afforded the Government and in the latter case when the sponsoring agency makes available the necessary exemption certificates, and (2) special assessments on land which represent capital improvements.

b. Any refund of taxes, interest, or penalties, and any payment to the institution of interest thereon, attributable to taxes, interest, or penalties which were allowed as research agreement costs, will be credited or paid to the Government in the manner directed by the Government provided any interest actually paid or credited to an institution incident to a refund of tax, interest and penalty will be paid or credited to the Government only to the extent that such interest accrued over the period during which the institution had been reimbursed by the Government for the taxes, interest, and penalties.

43. *Transportation costs.* Costs incurred for freight, express, cartage, postage, and other transportation services relating either to goods purchased, in process, or delivered, are allowable. When such costs can readily be identified with the items involved, they may be charged directly as transportation costs or added to the cost of such items. Where identification with the materials received cannot readily be made, inbound transportation costs may be charged to the appropriate indirect cost accounts if the institution follows a consistent, equitable procedure in this respect. Outbound freight, if reimbursable under the terms of the research agreement, should be treated as a direct cost.

44. *Travel costs.*

a. Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the institution. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip and not to selected days of the trip, and results in charges consistent with those normally allowed by the institution in its regular operations.

b. Travel costs are allowable subject to c., d., e., and f. below, when they are directly attributable to specific work under a research agreement or are incurred in the normal course of administration of the institution or a department or research program thereof.

c. The difference in cost between first-class air accommodations and less than first-class air accommodations is unallowable except when less than first-class air accommodations are not reasonably available to meet necessary mission requirements, such as where less than first-class accommodations would (1) require circuitous routing, (2) require travel during unreasonable hours, (3) greatly increase the duration of the flight, (4) result in additional costs which would offset the transportation savings, or (5) offer accommodations which are not reasonably adequate for the medical needs of the traveler.

d. Costs of personnel movements of a special or mass nature are allowable only when authorized or approved in writing by the sponsoring agency or its authorized representative.

e. Foreign travel costs are allowable only when the travel has received specific prior approval. Each separate foreign trip must be specifically approved. For purposes of this provision, foreign travel is defined as "any travel outside of Canada and the United States and its territories and possessions."

f. Expenditures for domestic travel may not exceed $500, or 125 percent of the amount allotted for such travel by the sponsoring agency, whichever is greater, except with approval.

45. *Termination costs applicable to research agreements.*

a. Termination of research agreements generally gives rise to the incurrence of costs or to the need for special treatment of costs, which would not have arisen had the agreement not been terminated. Items peculiar to termination are set forth below. They are to be used in conjunction with all other provisions of this Circular in the case of termination.

b. The cost of common items of material reasonably usable on the institution's other work will not be allowable unless the institution submits evidence that it could not retain such items at cost without sustaining a loss. In deciding whether such items are reasonably usable on other work of the institution, consideration should be given to the institution's plans and orders for current and scheduled work. Contemporaneous purchases of common items by the institution will be regarded as evidence that such items are reasonably usable on the institution's other work. Any acceptance of common items as allowable to the terminated portion of the agreement should be limited to the extent that the quantities of such items on hand, in transit, and on order are in excess of the reasonable quantitative requirements of other work.

c. If in a particular case, despite all reasonable efforts by the institution, certain costs cannot be discontinued immediately after the effective date of termination, such costs are generally allowable within the limitations set forth in this Circular, except that any such costs continuing after termination due to the negligent or willful failure of the institution to discontinue such costs will be considered unacceptable.

d. Loss of useful value of special tooling, and special machinery and equipment is generally allowable, provided (1) such special tooling, machinery, or equipment is not reasonably capable of use in the other work of the institution; (2) the interest of the Government is protected by transfer of title or by other means deemed appropriate by the contracting officer or equivalent; and (3) the loss of useful value as to any one terminated agreement is limited to that portion of the acquisition cost which bears the same ratio to the total acquisition cost as the terminated portion of the agreement bears to the entire terminated agreement and other Government agreements for which the special tooling, special machinery, or equipment was acquired.

e. Rental costs under unexpired leases are generally allowable where clearly shown to have been reasonably necessary for the performance of the terminated agreement, less the residual value of such leases, if (1) the amount of such rental claim does not exceed the reasonable use value of the property leased for the period of the agreement and such further period as may be reasonable; and (2) the institution makes all reasonable efforts to terminate, assign, settle, or otherwise reduce the cost of such lease. There also may be included the cost of alterations of such leased property, provided such alterations were necessary for the performance of the agreement, and of reasonable restoration required by the provisions of the lease.

f. Settlement expenses including the following are generally allowable: (1) accounting, legal, clerical, and similar costs reasonably necessary for the preparation and presentation to contracting officers or equivalent of settlement claims and supporting data with respect to the terminated portion of the agreement, and the termination and settlement of subagreements; and (2) reasonable costs for the storage, transportation, protection, and disposition of property provided by the Government or acquired or produced by the institution for the agreement.

g. Claims under subagreements, including the allocable portion of claims which are common to the agreement and to other work of the institution, are generally allowable.

K. Certification of Charges. To assure that expenditures for research grants and contracts are proper and in accordance with the research agreement documents and approved project budgets, the annual and/or final fiscal reports or vouchers requesting payment under research agreements will include a certification, signed by an authorized official of the university, which reads essentially as follows: "I certify that all expenditures reported (or payments requested) are for appropriate purposes and in accordance with the agreements set forth in the application and award documents."

ATTACHMENT B
Federal Management Circular 73-8
December 19, 1973

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO TRAINING AND OTHER EDUCATIONAL SERVICES UNDER GRANTS AND CONTRACTS WITH EDUCATIONAL INSTITUTIONS

General Services Administration
Office of Federal Management Policy

PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO TRAINING AND OTHER EDUCATIONAL SERVICES UNDER GRANTS AND CONTRACTS WITH EDUCATIONAL INSTITUTIONS

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PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO TRAINING AND OTHER EDUCATIONAL SERVICES UNDER GRANTS AND CONTRACTS WITH EDUCATIONAL INSTITUTIONS

A. Purpose. This Attachment extends the scope of FMC 73-8 to cover the determination of costs incurred by educational institutions under Federal grants and contracts for training and other educational services.

B. Application. All Federal agencies will use FMC 73-8 including this Attachment, as a basis for determining allowable costs under grants and cost reimbursement type contracts with educational institutions for work performed under federally-supported educational service agreements.

C. Terminology. The following definitions are to be used in determining the indirect cost of federally-sponsored training and other educational services under this Attachment:

1. *Educational service agreement* means any grant or contract under which Federal financing is provided on a cost reimbursement basis for all or an agreed portion of the costs incurred for training or other educational services. Typical of the work covered by educational service agreements are summer institutes, special training programs for selected participants, professional or technical services to cooperating countries, the development and introduction of new or expanded courses, and similar instructional oriented undertakings, including special research training programs, that are separately budgeted and accounted for by the institution.

The term does not extend to (a) grants or contracts for organized research, (b) arrangements under which the Federal financing is exclusively in the form of scholarships, fellowships, traineeships, or other fixed amounts such as a cost of education allowance or the normal published tuition rates and fees of an institution, or (c) construction, facility and exclusively general resource or institutional type grants.

2. *Instruction* means all of the academic work other than organized research carried on by an institution, including the teaching of graduate and undergraduate courses, departmental research (see section B.2. of Attachment A) and all special training or other instructional oriented projects sponsored by the Federal Government or others under educational service agreements.

D. Student administration and services. In addition to the five major functional categories of indirect costs described in section F of Attachment A, there is established an additional category under the title "Student administration and services" to embrace the following:

1. The expenses in this category are those that have been incurred for the administration of student affairs and for services to students, including expenses of such activities as deans of students, admissions, registrar, counseling and placement services, student advisers, student health and infirmary services, catalogs, and commencements and convocations. The salaries of members of the academic staff whose academic appointments or assignments involve the performance of such administrative or service work may also be included to the extent that the portion so charged is supported pursuant to section I.2. The student administration and services category also includes the staff benefit and pension plan costs applicable to the salaries and wages included therein, an appropriate share of the cost of the operation and maintenance of the physical plant, and charges representing use allowance or depreciation applicable to the buildings and equipment utilized in the performance of the functions included in this category.

2. The expenses in this category are generally applicable in their entirety to the instruction activity. They should be allocated to applicable cost objectives within the instruction activity, including educational service agreements, when such agreements reasonably benefit from these expenses. Such expenses should be allocated on the basis of population served (computed on the basis of full-time equivalents including students, faculty, and others as appropriate) or other methods which will result in an equitable distribution to cost objectives in relation to the benefits received and be consistent with guides provided in section E.2. of Attachment A.

E. Direct costs of educational service agreements. Direct costs of work performed under educational service agreements will be determined consistent with the principles set forth in section D of Attachment A.

F. Indirect costs of the instruction activity. The indirect costs of the instruction activity as a whole should include its allocated share of administrative and supportive costs determined in accordance with the principles set forth in section D above and in section F of Attachment A. Such costs may include other items of indirect cost incurred solely for the instruction activity and not included in the general allocation of the various categories of indirect expenses. Costs incurred for the institutions by State and local governments are allowable as provided for in section C.6. of Attachment A.

G. Indirect costs applicable to educational service agreements. The individual items of indirect costs applicable to the instruction activity as a whole should be assigned to (1) educational service agreements, and (2) all other instructional work through use of appropriate cost

groupings, selected distribution bases, and other reasonable methods as outlined in section E.2. of Attachment A. A single indirect pool may be used for all educational service agreements provided this results in a reasonably equitable distribution of costs among agreements in relation to indirect support services provided. However, when the level of indirect support significantly varies for work performed either on campus or off campus under a particular agreement or group of agreements, separate cost pools should be established consistent with the principles set forth in section G.1.b. of Attachment A. Where direct charges are provided for under educational service agreements for such things as commencement fees, student fees, and tuition, the related indirect costs, through separate cost groupings, should be excluded from the indirect costs allocable to the service agreements.

H. Indirect cost rates for educational service agreements. An indirect cost rate should be determined for the educational service agreement pool or pools, as established under section G above. The rate in each case should be stated as the percentage which the amount of the particular educational service agreement pool is of the total direct salaries and wages of all educational service agreements identified with such pool. Indirect costs should be distributed to individual agreements by applying the rate or rates established to direct salaries and wages for each agreement. When a fixed rate is negotiated in advance of a fiscal year, the over- or under-recovery for that year may be included as an adjustment to the indirect cost for the next rate negotiation as in sections G.4. and G.5. of Attachment A.

I. General standards for selected items of cost. The standards for selected items of cost as set forth in sections J.1. through J.46. of Attachment A applicable to research agreements will also be applied to educational service agreements with the following modifications:

1. *Commencement and convocation costs (J.5.).* Expenses incurred for convocations and commencements apply to the instruction activity as a whole. Such expenses are unallowable as direct costs of educational service agreements unless specifically authorized in the agreement or approved in writing by the sponsoring agency. For eligibility of allocation as indirect costs, see section D.

2. *Compensation for personal services (J.7.).* Charges to educational service agreements for personal services will normally be determined and supported consistent with the provisions of section J.7. of Attachment A. However, the provision for stipulated salary support will not be used for educational service agreements. Also, charges may include compensation in excess of the base salary of a faculty member for the conduct of courses outside the normal duties of such member provided that: (a) extra charges are determined at a rate not greater than the basic salary rate of the member; (b) salary payments for such work follow practices consistently applied within the institution; and (c) specific authorization for such charges is included in the educational service agreement.

3. *Scholarships and student aid costs (J.35.).* Expenses incurred for scholarships and student aid are unallowable as either direct costs or indirect costs of educational service agreements, unless specifically authorized in the educational service agreement or approved in writing by the sponsoring agency.

4. *Student activity costs (J.40.)* Expenses incurred for student activities are unallowable as either direct costs or indirect costs of educational service agreements, unless specifically authorized in the educational service agreement or approved in writing by the sponsoring agency.

5. *Student services costs (J.41.).* Expenses incurred for student services are unallowable as direct costs of educational service agreements unless specifically authorized in the agreement or approved in writing by the sponsoring agency. For eligibility of allocation as indirect costs, see section D.

COST ACCOUNTING STANDARDS ISSUED BY THE COST ACCOUNTING STANDARDS BOARD UNDER THE AUTHORITY OF PUBLIC LAW 91-379 (50 U.S.C. APP. 2168)

This Attachment incorporates Subchapter G, Parts 400, 401, and 402 of the *Federal Register*, Vol. 37, No. 40 – Tuesday, February 29, 1972, as part of FMC 73-8.

These parts contain regulations promulgated by the Cost Accounting Standards Board, which have the full force and effect of law.

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SUBCHAPTER G—COST ACCOUNTING STANDARDS

PART 400—DEFINITIONS

Sec.
400.1 Definitions.
400.2 Effective date [Reserved]

AUTHORITY: The provisions of this Part 400 are issued under 84 Stat. 796, sec. 103; 50 U.S.C. App. 2168.

§400.1 Definitions.

(a) This part defines various terms used in standards promulgated by the Cost Accounting Standards Board. Unless the text of a particular standard demands a different definition or the definition is expressly modified for a particular standard, terms defined herein whenever used in any standard shall have the meanings ascribed to them in this part. For convenience, the definitions of terms which are prominent in an individual standard are reprinted in that standard. The selection or non-selection of a particular definition to be reprinted in an individual standard, however, does not affect the applicability of all definitions in this part to that standard.

Accumulating Costs. The collecting of cost data in an organized manner, such as through a system of accounts.

Actual Costs. Amounts determined on the basis of costs incurred as distinguished from forecasted costs. Includes standard costs properly adjusted for applicable variances.

Allocate. To assign an item of cost, or a group of items of cost, to one or more cost objectives. This term includes both direct assignment of cost and the reassignment of a share from an indirect cost pool.

Cost Objective. A function, organizational subdivision, contract or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.

Direct Cost. Any cost which is identified specifically with a particular final cost objective. Direct costs are not limited to items which are incorporated in the end product as material or labor. Costs identified specifically with a contract are direct costs of that contract. All costs identified specifically with other final cost objectives of the contractor are direct costs of those cost objectives.

Estimating Costs. The process of forecasting a future result in terms of cost, based upon information available at the time.

Final Cost Objective. A cost objective which has allocated to it both direct and indirect costs, and, in the contractor's accumulation system, is one of the final accumulation points.

Indirect Cost. Any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.

Indirect Cost Pools. Groupings of incurred costs identified with two or more cost objectives but not identified specifically with any final cost objective.

Pricing. The process of establishing the amount or amounts to be paid in return for goods or services.

Proposal. Any offer or other submission used as a basis for pricing a contract, contract modification or termination settlement or for securing payments thereunder.

Reporting Costs. Provision of cost information to others. The reporting of costs involves selecting relevant cost data and presenting it in an intelligible manner for use by the recipient.

§400.2 Effective date [Reserved]

PART 401—COST ACCOUNTING STANDARD—CONSISTENCY IN ESTIMATING, ACCUMULATING AND REPORTING COSTS

Sec.
401.10 General applicability.
401.20 Purpose.
401.30 Definitions.
401.40 Fundamental requirement.
401.50 Techniques for application.
401.60 Illustrations.
401.70 Exemptions.
401.80 Effective date.

AUTHORITY: The provisions of this Part 401 are issued under 84 Stat. 796, sec. 103; 50 U.S.C. App. 2168.

§401.10 General applicability.

This standard shall be used by defense contractors and subcontractors under Federal contracts entered into after the effective date hereof and by all relevant Federal agencies in estimating, accumulating, and reporting costs in connection with the pricing, administration and settlement of all negotiated prime contract and subcontract national defense procurements with the United States in excess of $100,000, other than contracts or subcontracts where the price negotiated is based on: (a) Established catalog or market prices of commercial items sold in substantial quantities to the general public, or (b) prices set by law or regulation.

§401.20 Purpose.

The purpose of this Cost Accounting Standard is to insure that each contractor's practices used in estimating costs for a proposal are consistent with cost accounting practices used by him in accumulating and reporting costs. Consistency in the application of cost accounting practices is necessary to enhance the likelihood that comparable transactions are treated alike. With respect to individual contracts, the consistent application of cost accounting practices will facilitate the preparation of reliable cost estimates used in pricing a proposal and their comparison with the costs of performance of the resulting contract. Such comparisons provide one important basis for financial control over costs during contract performance and aid in establishing accountability for costs in the manner agreed to by both parties at the time of contracting. The comparisons also provide an improved basis for evaluating estimating capabilities.

§401.30 Definitions.

(a) The following definitions of terms which are prominent in this standard are reprinted from Part 400 of this chapter for convenience. Other terms which are used in this standard and are defined in Part 400 of this chapter have the meanings ascribed to them in that part unless the text demands a different definition or the definition is modified in subparagraph (b) of this paragraph.

(1) *Accumulating Costs.* The collecting of cost data in an organized manner, such as through a system of accounts.

(2) *Actual Cost.* Amounts determined on the basis of costs incurred as distinguished from forecasted costs. Includes standard costs properly adjusted for applicable variances.

(3) *Estimating Costs.* The process of forecasting a future result in terms of cost, based upon information available at the time.

(4) *Indirect Cost Pools.* Groupings of incurred costs identified with two or more cost objectives but not identified specifically with any final cost objectives.

(5) *Pricing.* The process of establishing the amount or amounts to be paid in return for goods or services.

(6) *Proposal.* Any offer or other submission used as a basis for pricing a contract, contract modification or termination settlement or for securing payments thereunder.

(7) *Reporting Costs.* Provision of cost information to others.

The reporting of costs involves selecting relevant cost data and presenting it in an intelligible manner for use by the recipient.

(b) The following modifications of definitions set forth in Part 400 of this chapter are applicable to this standard: None.

§401.40 Fundamental requirement.

(a) A contractor's practices used in estimating costs in pricing a proposal shall be consistent with his cost accounting practices used in accumulating and reporting costs.

(b) A contractor's cost accounting practices used in accumulating and reporting actual costs for a contract shall be consistent with his practices used in estimating costs in pricing the related proposal.

(c) The groupings of homogeneous costs in estimates prepared for proposal purposes shall not per se be deemed an inconsistent application of cost accounting practices under paragraphs (a) and (b) of this section when such costs are accumulated and reported in greater detail on an actual cost basis during contract performance.

§401.50 Techniques for application.

(a) The standard allows grouping of homogeneous costs in order to cover those cases where it is not practicable to estimate contract costs by individual cost element or function. However, costs estimated for proposal purposes shall be presented in such a manner and in such detail that any significant cost can be compared with the actual cost accumulated and reported therefor. In any event the cost accounting practices used in estimating costs in pricing a proposal and in accumulating and reporting costs on the resulting contract shall be consistent with respect to: (1) The classification of elements or functions of cost as direct or indirect; (2) the indirect cost pools to which each element or function of cost is charged or proposed to be charged; and (3) the methods of allocating indirect costs to the contract.

(b) Adherence to the requirement of §401.40(a) of this standard shall be determined as of the date of award of the contract, unless the contractor has submitted cost or pricing data pursuant to Public Law 37-653, in which case adherence to the requirement of §401.40(a) shall be determined as of the date of final agreement on price, as shown on the signed certificate of current cost or pricing data. Notwithstanding §401.40(b), changes in established cost accounting practices during contract performance may be made when authorized by standards, rules, and regulations issued by the Cost Accounting Standards Board.

§401.60 Illustrations.

(a) The following examples are illustrative of applications of cost accounting practices which are deemed to be consistent.

Practices used in estimating costs for proposals	*Practices used in accumulating and reporting costs of contract performance*
1. Contractor estimates an average direct labor rate for manufacturing direct labor by labor category or function.	1. Contractor records manufacturing direct labor based on actual cost for each individual and collects such costs by labor category or function.
2. Contractor estimates an average cost for minor standard hardware items, including nuts, bolts, washers, etc.	2. Contractor records actual cost for minor standard hardware items based upon invoices or material transfer slips.
3. Contractor uses an estimated rate for manufacturing overhead to be applied to an estimated direct labor base. He identifies the items included in his estimate of manufacturing overhead and provides supporting data for the estimated direct labor base.	3. Contractor accounts for manufacturing overhead by individual items of cost which are accumulated in a cost pool allocated to final cost objectives on a direct labor base.

(b) The following examples are illustrative of application of cost accounting practices which are deemed not to be consistent.

Practices used for estimating costs for proposals	*Practices used in accumulating and reporting costs of contract performance*
4. Contractor estimates a total dollar amount for engineering labor which in-	4. Contractor accounts for engineering labor by cost function, i.e., drafting, de-

cludes disparate and significant elements or functions of engineering labor. Contractor does not provide supporting data reconciling this amount to the estimates for the same engineering labor cost functions for which he will separately account in contract performance.	signing, production engineering, etc.
5. Contractor estimates engineering labor by cost function, i.e., drafting, production engineering, etc.	5. Contractor accumulates total engineering labor in one undifferentiated account.
6. Contractor estimates a single dollar amount for matching cost to cover labor, material and overhead.	6. Contractor records separately the actual cost of machining labor and material as direct costs, and factory overhead as indirect costs.

§401.70 Exemptions.

None for this standard.

§401.80 Effective date [Reserved]

PART 402—COST ACCOUNTING STANDARD—CONSISTENCY IN ALLOCATING COSTS INCURRED FOR THE SAME PURPOSE

Sec.

402.10 General applicability.
402.20 Purpose.
402.30 Definitions.
402.40 Fundamental requirement.
402.50 Techniques for application.
402.60 Illustrations.
402.70 Exemptions.
402.80 Effective date.

AUTHORITY: The provisions of this Part 402 are issued under 84 Stat. 796, sec. 103; 50 U.S.C. App. 2168.

§402.10 General applicability.

This standard shall be used by defense contractors and subcontractors under Federal contracts entered into after the effective date hereof, and by all relevant Federal agencies in estimating, accumulating and reporting costs in connection with the pricing, administration, and settlement of all negotiated prime contract and subcontract national defense procurements with the United States in excess of $100,000, other than contracts or subcontracts where the price negotiated is based on (a) established catalog or market prices of commercial items sold in substantial quantities to the general public, or (b) prices set by law or regulation.

§402.20 Purpose.

The purpose of this standard is to require that each type of cost is allocated only once and on only one basis to any contract or other cost objective. The criteria for determining the allocation of costs to a product, contract, or other cost objective should be the same for all similar objectives. Adherence to these cost accounting concepts is necessary to guard against the overcharging of some cost objectives and to prevent double counting. Double counting occurs most commonly when cost items are allocated directly to a cost objective without eliminating like cost items from indirect cost pools which are allocated to that cost objective.

§402.30 Definitions.

(a) The following definitions of terms which are prominent in this standard are reprinted from Part 400 of this chapter for convenience. Other terms which are used in this standard and are defined in Part 400 of this chapter have the meanings ascribed to them in that part unless the text demands a different definition or the definition is modified in paragraph (b) of this section.

(1) *Allocate.* To assign an item of cost, or a group of items of cost, to one or more cost objectives. This term includes both direct assignment of cost and the reassignment of a share from an indirect cost pool.

(2) *Cost Objective.* A function, organizational subdivision, contract or other work unit for which cost data are desired and for which provision is made to accumulate and measure the costs of processes, products, jobs, capitalized projects, etc.

(3) *Direct Cost.* Any cost which is identified specifically with a particular final cost objective. Direct costs are not limited to items which are incorporated in the end product as material or labor. Costs identified specifically with a contract are direct costs of that contract. All costs identified specifically with other final cost objectives of the contractor are direct costs of those cost objectives.

(4) *Final Cost Objective.* A cost objective which has allocated to it both direct and indirect costs, and, in the contractor's accumulation system, is one of the final accumulation points.

(5) *Indirect Cost.* Any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.

(6) *Indirect Cost Pools.* Groupings of incurred costs identified with two or more cost objectives but not identified specifically with any final cost objective.

(b) The following modifications of definitions set forth in Part 400 of this chapter are applicable to this standard: None.

§402.40 Fundamental Requirement.

All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included

in any indirect cost pool to be allocated to that or any other final cost objective.

§402.50 Techniques for application.

(a) The Fundamental Requirement is stated in terms of cost incurred and is equally applicable to estimates of costs to be incurred as used in contract proposals.

(b) The Disclosure Statement to be submitted by the contractor will require that he set forth his cost accounting practices with regard to the distinction between direct and indirect costs. In addition, for those types of cost which are sometimes accounted for as direct and sometimes accounted for as indirect, the contractor will set forth in his Disclosure Statement the specific criteria and circumstances for making such distinctions. In essence, the Disclosure Statement submitted by the contractor, by distinguishing between direct and indirect costs, and by describing the criteria and circumstances for allocating those items which are sometimes direct and sometimes indirect, will be determinative as to whether or not costs are incurred for the same purpose. Disclosure Statement as used herein refers to the statement required to be submitted by contractors as a condition of contracting as set forth in Part 351 of this chapter.

(c) In the event that a contractor has not submitted a Disclosure Statement the determination of whether specific costs are directly allocable to contracts shall be based upon the contractor's cost accounting practices used at the time of contract proposal.

(d) Whenever costs which serve the same purpose cannot equitably be indirectly allocated to one or more final cost objectives in accordance with the contractor's disclosed accounting practices, the contractor may either: (1) Use a method for reassigning all such costs which would provide an equitable distribution to all final cost objectives, or (2) directly assign all such costs to final cost objectives with which they are specifically identified. In the event the contractor decides to make a change for either purpose the Disclosure Statement shall be amended to reflect the revised accounting practices involved.

(e) Any direct cost of minor dollar amount may be treated as an indirect cost for reasons of practicality where the accounting treatment for such cost is consistently applied to all final cost objectives, provided that such treatment produces results which are substantially the same as the results which would have been obtained if such cost had been treated as a direct cost.

§402.60 Illustrations.

(a) Illustrations of costs which are incurred for the same purpose:

(1) Contractor normally allocates all travel as an indirect cost and previously disclosed this accounting practice to the Government. For purposes of a new proposal, contractor intends to allocate the travel costs of personnel whose time is accounted for as direct labor directly to the contract. Since travel costs of personnel whose time is accounted for as direct labor working on other contracts are costs which are incurred for the same purpose, these costs may no longer be included within indirect cost pools for purposes of allocation to any covered Government contract. Contractor's Disclosure Statement must be amended for the proposed changes in accounting practices.

(2) Contractor normally allocates planning costs indirectly and allocates this cost to all contracts on the basis of direct labor. A proposal for a new contract requires a disproportionate amount of planning costs. The contractor prefers to continue to allocate planning costs indirectly. In order to equitably allocate the total planning costs, the contractor may use a method for allocating all such costs which would provide an equitable distribution to all final cost objectives. For example, he may use the number of planning documents processed rather than his former allocation base of direct labor. Contractor's Disclosure Statement must be amended for the proposed changes in accounting practices.

(b) Illustrations of costs which are not incurred for the same purpose:

(1) Contractor normally allocates special tooling costs directly to contracts. The costs of general purpose tooling are normally included in the indirect cost pool which is allocated to contracts. Both of these accounting practices were previously disclosed to the Government. Since both types of costs involved were not incurred for the same purpose in accordance with the criteria set forth in the contractor's Disclosure Statement, the allocation of general purpose tooling costs from the indirect cost pool to the contract, in addition to the directly allocated special tooling costs is not considered a violation of the standard.

(2) Contractor proposes to perform a contract which will require three firemen on 24-hour duty at a fixed-post to provide protection against damage to highly inflammable materials used on the contract. Contractor presently has a fire fighting force of 10 employees for general protection of the plant. Contractor's costs for these latter firemen are treated as indirect costs and allocated to all contracts; however, he wants to allocate the three fixed-post firemen directly to the particular contract requiring them and also allocate a portion of the cost of the general firefighting force to the same contract. He may do so but only on condition that his disclosed practices indicate that the costs of the separate classes of firemen serve different purposes and that it is his practice to allocate the general firefighting force indirectly and to allocate fixed-post firemen directly.

§402.70 Exemption.

None for this standard.

§402.80 Effective date [Reserved]

Effective date. Unless a different date is established in connection with a specific part or section, the regulations promulgated herein shall be effective July 1, 1972.

ARTHUR SCHOENHAUT,
Executive Secretary.

[FR Doc. 72-3001 Filed 2-28-72; 8:54 am]

NOTICE

The coordinating arrangements for establishing and auditing indirect cost rates at educational institutions in Attachment A of FMC 73-6, dated December 19, 1973, were applicable at the issuance date of this Guide. Any subsequent authorized revisions made to the coordinating arrangements after the issuance date of this Guide shall be applicable even though not included in this Guide.

GENERAL SERVICES ADMINISTRATION

OFFICE OF FEDERAL MANAGEMENT POLICY

FEDERAL MANAGEMENT CIRCULAR

FMC 73-6: Coordinating indirect cost rates and audit at educational institutions

December 19, 1973

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

1. Purpose. This circular provides policies for coordinating (a) the establishment of indirect cost rates for, and (b) the auditing of, Federal grants and contracts with educational institutions. The objectives are to promote a coordinated Federal approach in these areas and to achieve more efficient use of manpower.

2. Supersession. The President by Executive Order 11717 transferred the functions covered by this circular from the Office of Management and Budget to the General Services Administration. This circular is issued as a replacement for previous Office of Management and Budget Circular No. A-88. No substantive changes have been made from the previous circular except that the annual reporting requirement regarding agency assignments has been omitted and the interagency coordinating committee has been discontinued.

3. Policy intent. To avoid confusion, duplication, conflicting directions, and unnecessary work for educational institutions receiving grants and contracts from more than one Federal agency, it is the intention of this circular to provide a procedure for a single Federal determination of allowable indirect costs and for a single audit for each educational institution. It is intended that this practice will simplify Federal procedures and result in more efficient use of manpower.

4. Applicability and scope. The provisions of this circular apply to all executive departments and establishments (hereafter referred to as Federal agencies) that administer grants and contracts with educational institutions which are subject to General Services Administration Federal Management Circular 73-8 (formerly Office of Management and Budget Circular No. A-21 (Revised)). To the extent appropriate, the policies set forth in this circular may be applied also to other grants and contracts with educational institutions.

5. Policies.

a. *Negotiation of indirect cost rates.* One Federal agency will negotiate the indirect cost rate or rates for all agencies at a single institution. These negotiations will be carried out in accordance with relevant provisions of law and other applicable regulations or requirements.

b. *Negotiation of other special rates.* Institutional services involving the use of highly complex and specialized facilities, such as electronic computers, may in some cases require the negotiation of special rates. In these situations also, the cognizant Federal agency will do the negotiating for all the others at a single institution.

c. *Acceptance of negotiated indirect cost rates.* The negotiated rates will be accepted by all Federal agencies.

d. *Auditing.* One Federal agency will do all the necessary auditing of direct and indirect costs at a single institution. Agencies which have special considerations affecting their contracts or grants will inform the cognizant audit agency so that appropriate attention may be given to them in developing the audit program. Results of the audit will be furnished by the cognizant audit agency to the other agencies concerned.

e. *Agency cognizance.* One Federal agency may carry out the indirect cost rate negotiation while another may be responsible for the auditing but, wherever possible, the same agency will perform both of these related functions at a single institution.

6. Administering the policies.

a. *Agency assignments.* Federal agency assignments for cost negotiation and audit responsibility at educational institutions are set forth in attachment A. Government-owned facilities at educational institutions are not included in the cognizance assignments. These will remain the responsibility of the contracting agencies. The listed assignments cover both cost negotiation and audit unless otherwise indicated. The Office of Federal Management Policy, General Services Administration, will provide for the necessary coordination of changes in agency assignments.

b. *Procedure for consolidated negotiation.* The cognizant Federal negotiation agency for any specific institution will notify the institution of this assignment and will furnish to the institution the names and addresses of those to whom copies of the proposal for an indirect cost rate (or other special rate) must be sent. Representatives of other agencies who desire a copy should so inform the negotiation agency. In certain cases, the cognizant audit agency will be requested to conduct an advisory audit of the indirect cost rate proposal and furnish copies of its report to all agencies having grants and contracts at the particular institution prior to the negotiation of the indirect cost rate. In addition to its report, the audit agency upon request will provide related advice and counsel for the negotiation of rates. Indirect cost rates will be established by one of the following means:

(1) *By formal negotiation.* The cognizant negotiation agency will schedule a prenegotiation conference to which it will invite all agencies having grants and contracts at the institution. Thereafter, the cognizant agency will arrange a negotiation conference with the institution. If an agency does not wish to be represented in these meetings due to a relatively small dollar volume at the institution, or for other reasons, the cognizant negotiation agency will represent that agency.

(2) *By other than formal negotiation.* This will include cases where the institution and cognizant agency determine that agreement can be reached without a formal negotiation conference; for example, through correspondence or use of the short form method described in Federal Management Circular 73-8 (formerly Office of Management and Budget Circular No. A-21 (Revised)).

c. *Special considerations affecting indirect cost rate negotiation.* An agency which has reason to believe that special operating factors affecting its contracts or grants necessitate separate rates will, prior to the time the agreement is negotiated, notify the cognizant audit agency, the institution, and the cognizant negotiation agency so that appropriate attention may be devoted to them. Federal Management Circular 73-8 (formerly Office of Management and Budget Circular No. A-21 (Revised)) provides for separate indirect cost rates when it is determined that a separate rate differs significantly from a single rate and that the volume of work to which such special rate would apply is material in relation to other Government work at the institution.

d. *Formalizing determinations and agreements.* The negotiation agency will formalize all determinations or agreements reached with the institution and provide copies to the cognizant audit agency and other agencies having an interest.

e. *Disputes and disagreements with educational institutions.* Where the negotiation agency is unable to reach agreement with an institution on the establishment of an acceptable indirect cost rate or rates, it will formalize its final position and notify the other agencies involved of its recommendations. The individual agencies will endeavor to coordinate the resolution of the disputed items with the negotiation agency. If agreement cannot be obtained through this procedure, the agencies, individually, may proceed with separate negotiations with the institution concerned.

f. *Reimbursement.* Reimbursement to cognizant agencies for work performed under this circular will be made by reimbursement billing under section 601, Economy Act of 1932, 31 U.S.C. 686.

7. Inquiries. Further information concerning this circular may be obtained by contacting:

General Services Administration (AMF)
Washington, DC 20405

Telephone: IDS 183-7747
FTS 202-343-7747

ARTHUR F. SAMPSON
Administrator of General Services

Note: This circular has been codified in the Code of Federal Regulations as 34 CFR 252.)

Attachment

ASSIGNMENT OF COST NEGOTIATION AND AUDIT RESPONSIBILITY UNDER FEDERAL MANAGEMENT CIRCULAR 73-6 (FORMERLY OFFICE OF MANAGEMENT AND BUDGET CIRCULAR NO. A-88)

SPECIAL COMMENT

Because of the length of Attachment A, it is not reproduced here as published by the General Services Administration. In its place, there follows a list of those institutions that are *not* under the responsibility of the Department of Health, Education, and Welfare. These institutions are shown below with the Federal agency designated that has responsibility. Any institution *not* shown below is the responsibility of the Department of Health, Education, and Welfare.

Alaska	
Univ. of Alaska	DOD
California	
Calif. Inst. of Tech.	DOD
Fresno State Col.	Int.
Scripps Col.	Int.
Stanford Univ.	DOD
Colorado	
Colo. Sch. of Mines	DOD
Univ. of Denver	DOD
Florida	
Florida Atlantic Univ.	Int.
Georgia	
Georgia Inst. of Tech.	DOD
Guam	
Col. of Guam	Int.
Hawaii	
Univ. of Hawaii	DOD
Idaho	
Univ. of Idaho	Int.
Illinois	
Univ. of Illinois	DOD
Indiana	
Univ. of Notre Dame	DOD
Massachusetts	
Emmanuel Col.	DOD
Franklin Inst. of Boston	DOD
Lowell Tech. Inst.	DOD
Mass. Inst. of Tech.	DOD
Regis College	DOD
Wentworth Inst.	DOD
Woods Hole Ocean Inst.	DOD
Montana	
Montana St. Univ.	Int.
Nevada	
Univ. of Nevada	Int.
New Jersey	
Inst. for Advanced Study	DOD
Princeton Univ.	ERDA
Stevens Inst. of Tech.	DOD
New Mexico	
New Mex. Inst. Min. & Tech.	DOD
New Mex. St. Univ.	DOD
Univ. of New Mex.	DOD
New York	
Barnard Col.	DOD
Columbia Univ.	DOD
Cornell Univ.	DOD
Polytech. Inst. of Brooklyn	DOD
Syracuse Univ.	DOD
Teachers Col.	DOD
Univ. of Rochester	DOD
Ohio	
Antioch Col.	DOD
Univ. of Dayton	DOD

Pennsylvania	
Carnegie - Mellon Univ.	DOD
Pennsylvania St. Univ.	DOD
Rhode Island	
Brown Univ.	DOD
Univ. of Rhode Island	DOD
South Dakota	
S.D. Sch. Mines & Tech.	Int.
Texas	
Rice Univ.	DOD
Utah	
Utah St. Univ.	Int.
Virginia	
Col. of William & Mary	DOD
Virginia Military Inst.	DOD
Virgin Islands	
Col. of Virgin Islands	Int.
Wyoming	
Univ. of Wyoming	Int.

SECTION V

APPENDICES

APPENDIX 1

SAMPLE INDIRECT COST RATE PROPOSAL FORMATS:

Page

1. Regular Procedure (Long Form) –

   Exhibit A Research and Educational Service Agreement Rates 52

2. Simplified Method for Small Institutions (Short Form) –

   Exhibit B-1 Abbreviated Method 66

   Exhibit B-2 Supplement to Exhibit B-1 to Cover Institution with Donated (Contributed) Services. 70

EXHIBIT A

DESCRIPTION

This Exhibit demonstrates how total indirect expenses may be distributed to the various functions of an institution in order to determine those indirect costs applicable to organized research and to educational service agreements. As reflected on the Exhibit, certain elements of indirect cost are distributed to other elements of indirect cost, as well as to direct cost objectives since they benefit or support both; e.g., equipment is used in libraries and, therefore, equipment use charges are distributed to the library indirect cost pool element.

Because of space limitations, the twelve schedules of Exhibit A are not intended to reflect every schedule or sub-schedule that should be submitted as part of a proposal to properly support an indirect cost rate for either research or for educational service agreements. For example, a schedule must be submitted that reconciles any differences in expenditures between those reported in the sample Schedule 12 of Exhibit A, with those reported by the institution in its financial statements. In this sample, it is assumed that fringe benefits applicable to direct functions have been treated as direct costs. Fringe benefits applicable to indirect functions are included as part of the costs of those indirect functions. See Schedule 12, footnote 1, for examples of other adjustments that must be made but which have been omitted from this sample for purposes of brevity.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____ University

Fiscal Year Ended June 30, 19__

SUMMARY OF RESEARCH INDIRECT COST RATES

Schedule 1

	Schedule	Indirect Costs Applicable to Research	Base - Total Direct Research Salaries & Wages (1)	Rates Applicable to On-Campus	Rates Applicable to Off-Campus (2)
Building Use Allowance	3	$84,446	$3,191,503	2.65%	
Equipment Use Allowance	4	99,282	3,191,503	3.11	
Operation & Maintenance	5	293,344	3,191,503	9.19	
General & Administrative	6	536,243	3,325,031	16.13	16.13%
Library	7	102,278	3,191,503	3.20	
Departmental Administration	8	660,555	3,325,031	19.87	19.87
Research Administration	10	220,163	3,325,031	6.62	6.62
Totals		$1,996,311		60.77%	42.62%

Schedule 2

SUMMARY OF EDUCATIONAL SERVICE AGREEMENT INDIRECT COST RATES

	Schedule	Indirect Costs Applicable to Educational Service Agreements	Base - Total Direct ESA Salaries & Wages (3)	Rates Applicable to On-Campus	Rates Applicable to Off-Campus
Building Use Allowance	3	$17,418	$2,036,516	.86%	
Equipment Use Allowance	4	61,441	2,036,516	3.02	
Operation & Maintenance	5	55,797	2,036,516	2.74	
General & Administrative	6	368,802	2,121,370	17.38	17.38%
Library	7	48,786	2,036,516	2.40	
Depart mental Administration	8	792,332	2,121,370	37.35	37.35
ESA Administration	10	143,315	2,121,370	6.76	6.76
Student Administration & Services	11	21,061	2,036,516	1.03	
Totals		$1,508,952		71.54%	61.49%

(1) The $3,325,031 amount represents both on-campus and off-campus direct salaries and wages; the $3,191,503 represents on-campus direct salaries and wages only. Both amounts also include vacations, sick leave, and holidays. If any other fringe benefits are to be included in the base, details should be provided.

(2) In some cases, an appropriate component for Operations and Maintenance and for Library expense may be applicable to an off-campus activity.

(3) The $2,121,370 amount represents both on-campus and off-campus direct salaries and wages; the $2,036,516 represents on-campus direct salaries and wages only. Both amounts also include vacations, sick leave, and holidays. If any other fringe benefits are to be included in the base, details should be provided.

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____ University

Fiscal Year Ended June 30, 19__

ALLOCATION OF BUILDING USE ALLOWANCE — Schedule 3

Buildings		$136,801,954
Permanent Improvements		8,412,432
		$145,214,386
Less: Buildings Under Construction	$5,343,896	
Less: Federally-Funded Buildings	3,961,462	(9,305,358)
Total to be Allocated		$135,909,028

Basis of Allocation: Specific identification of square footage used, on a building by building basis

	Acquisition Cost	2% Use Allowance
Instruction	$51,666,710	$1,033,334
Research (To Schedule 1)	4,222,300	84,446
Educational Service Agreements (To Schedule 2)	870,882	17,418
Departmental Administration (To Schedule 8b)	2,018,518	40,370
General & Administrative (To Schedule 6)	2,681,690	53,634
Research Administration (To Schedule 10)	30,617	612
Operation & Maintenance (To Schedule 5)	4,567,385	91,348
Library (To Schedule 7)	7,793,981	155,880
Other Institutional Activities	59,647,020	1,192,939
Student Services (To Schedule 9)	2,337,627	46,753
Student Administration (To Schedule 11)	72,298	1,446
Total Allocated	$135,909,028	$2,718,180

Schedule 4

ALLOCATION OF EQUIPMENT USE ALLOWANCE

Equipment	$27,700,651
Less: Equipment Purchased With Federal Funds	893,382
Total to be Allocated	$26,807,269

Basis of Allocation: Use of Equipment by Each Function and Activity

	Acquisition Cost	6-2/3% Use Allowance
Research (To Schedule 1)	$1,489,228	$99,282
Educational Service Agreements (To Schedule 2)	921,618	61,441
Instruction	9,957,118	663,807
Other Institutional Activities	4,998,810	333,253
Operation & Maintenance (To Schedule 5)	3,106,317	207,087
General & Administrative (To Schedule 6)	1,190,367	79,358
Departmental Administration (To Schedule 8b)	2,993,897	199,593
Research Administration (To Schedule 10)	28,975	1,932
Library (To Schedule 7)	1,574,611	104,974
Student Services (To Schedule 9)	529,939	35,329
Student Administration (To Schedule 11)	16,389	1,093
Total Allocated	$26,807,269	$1,787,149

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____ University

Fiscal Year Ended June 30, 19__

ALLOCATION OF OPERATION AND MAINTENANCE — Schedule 5

Current Expenditures (Schedule 12)	$10,619,986(1)
Building Use Allowance (Schedule 3)	91,348
Equipment Use Allowance (Schedule 4)	207,087
Total to be Allocated	$10,918,421

Basis of Allocation: Square Footage (2)

	Square Footage	Percentage	Amount Allocated
Research (To Schedule 1)	96,082	2.69%	$293,344
Educational Service Agreements (To Schedule 2)	18,216	.51	55,797
General & Administrative (To Schedule 6)	141,801	3.97	434,031
Library (To Schedule 7)	222,166	6.22	678,664
Departmental Administration (To Schedule 8b)	71,436	2.00	218,920
Research Administration (To Schedule 10)	2,501	.07	7,508
Student Services (To Schedule 9)	87,152	2.44	266,586
Student Administration (To Schedule 11)	2,858	.08	8,245
Other Institutional Activities	1,799,830	50.39	5,501,620
Instruction	1,129,761	31.63	3,453,706
Total Allocated	3,571,803	100%	$10,918,421

(1) This amount is net of unallowable items and capital expenditures.

(2) Where the same space is utilized by more than one function, an allocation of the operation and maintenance cost should be made to the using functions by use of an equitable distribution base.

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____University

Fiscal Year Ended June 30, 19__

ALLOCATION OF GENERAL AND ADMINISTRATIVE

Schedule 6

Total Current Expenditures - G&A (Schedule 12)	$6,650,244(1)
Building Use Allowance (Schedule 3)	53,634
Equipment Use Allowance (Schedule 4)	79,358
Operation & Maintenance (Schedule 5)	434,031
Total to be Allocated	$7,217,267

Basis of Allocation: Total Expenditures

	Total Current Expenditures (From Schedule 12)	Building Use Allowance (From Schedule 3)	Equipment Use Allowance (From Schedule 4)	Operation & Maintenance (From Schedule 5)	Total	Percentage	Amount Allocated
Research (To Schedule 1)	$4,300,928	$84,446	$99,282	$293,344	$4,778,000	7.43%	$536,243
Educational Service Agreements (To Schedule 2)	3,154,477	17,418	61,441	55,797	3,289,133	5.11	368,802
Instruction	24,440,544	1,003,334	663,807	3,453,706	29,591,391	46.03	3,322,108
Student Services (To Schedule 9)	3,569,001	46,753	35,329	266,586	3,917,669	6.10	440,253
Student Administration (To Schedule 11)	197,786	1,446	1,093	8,245	208,570	.32	23,096
Departmental Administration (To Schedule 8b)	5,429,478	40,370	199,593	218,920	5,888,361	9.16	661,102
Research Administration (To Schedule 10)	292,922	612	1,932	7,508	302,974	.47	33,921
Library (To Schedule 7)	2,248,562	155,880	104,974	678,664	3,188,080	4.96	357,976
Other Institutional Activities	6,098,851	1,192,939	333,253	5,501,620	13,126,663	20.42	1,473,766
Total	$49,732,549	$2,573,198	$1,500,724	$10,484,390	$64,290,841	100%	$7,217,267

(1) This amount is net of unallowable items and capital expenditures.

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____University

Fiscal Year Ended June 30, 19__

ALLOCATION OF LIBRARY

Schedule 7

Current Expenditures - Library (Schedule 12)	$2,248,562
Building Use Allowance (Schedule 3)	155,880
Equipment Use Allowance (Schedule 4)	104,974
Operation & Maintenance (Schedule 5)	678,664
General & Administrative (Schedule 6)	357,976
Books Purchased & Not Included Above as Current Expenditures	733,353
Total to be Allocated	$4,279,409

Basis of Allocation - Population

Group	Population(2)	Percentage	Research	Educational Service Agreements	All Other	Total
Faculty:						
Instruction	2,681	10.89%			$466,028	$466,028
Research	361	1.47	$62,907			62,907
Educational Service Agreements	230	.93		$39,799		39,799
Public Service	110	.45			19,257	19,257
Graduate Students:						
Educational Service Agreements	51	.21		8,987		8,987
Research	136	.55	23,537			23,537
Regular	1,607	6.53			279,445	279,445
Undergraduate	18,804	76.41			3,269,896	3,269,896
Outside Users	538	2.19			93,719	93,719
Research Workers(1)	90	.37	15,834			15,834
	24,608	100%	$102,278	$48,786	$4,128,345	$4,279,409
			To Schedule 1	To Schedule 2		

(1) Only include individuals equivalent to professional and professional staff; this does not include technicians, secretarial, and clerical type workers.

(2) Population figures have been adjusted to full-time equivalents where an individual is represented by more than one line item category.

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____ University

Fiscal Year Ended June 30, 19___

ALLOCATION OF DEPARTMENTAL ADMINISTRATION — Schedule 8

	Departmental Administration			
	Instruction	Educational Service Agreements	Research	Total (1)
College of Arts & Sciences (A&S):				
Dept. A	$200,591			$200,591
Dept. B	357,485	$20,062	$132,927	510,474
Dept. C	375,677	209,734	428,287	1,013,698
Dept. D	275,866	22,593		298,459
All Other Colleges and Departments	3,886,957	539,943	99,341	4,526,241
	$5,096,576	$792,322	$660,555	$6,549,463
		To Sch. 2	To Sch. 1	

Basis of Allocation: Direct Salaries and Wages from below

	Direct Salaries and Wages(2)							
	Instruction		Educational Service Agreements		Research		Total	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
College of A&S:								
Dept. A	$1,287,500	100%					$1,287,500	100%
Dept. B	1,425,000	70.03%	$80,000	3.93%	$530,000	26.04%	2,035,000	100%
Dept. C	1,508,600	37.06%	842,500	20.69%	1,720,000	42.25%	4,071,100	100%
Dept. D	1,466,000	92.43%	120,000	7.57%			1,586,000	100%
Total	$5,687,100		$1,042,500		$2,250,000		$8,979,600	
All Other Colleges	14,494,303(3)		1,078,870(3)		1,075,031(3)		16,648,204	100%
Total	$20,181,403		$2,121,370		$3,325,031		$25,627,804	

(1) Per Schedule 8a

(2) Per Schedule 8b

(3) These percentages must be developed independently for each College and Department similar to the procedure used for the College of Arts and Sciences.

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____ University

Fiscal Year Ended June 30, 19__

Allocation of Departmental Administration

Schedule 8a

	Dept'l Adm. Costs		Transfers In					Deans	
	Percentage	Total (1)	G. & A. (1)	Bldg. Use (2)	Equip. Use (3)	O. & M. (4)	Total	Distribution Per Sch. Below	Total
College of A & S:									
Dean	3.97%	$215,510	$26,246	$1,421	$10,339	$7,444	$260,960	($260,960)	
Dept. A	2.45	133,200	16,197	1,292	5,170	8,641	164,500	36,091	$200,591
Dept. B	6.73	365,200	44,492	3,101	18,463	19,354	450,610	59,864	510,474
Dept. C	13.64	740,800	90,174	5,168	29,541	28,287	893,970	119,728	1,013,698
Dept. D	3.78	205,200	24,990	1,938	10,340	10,714	253,182	45,277	298,459
All Other Colleges: (5)									
Deans	9.20	499,500	60,821	3,568	13,831	17,337	595,059	(595,057)	
Dept's	60.23	3,270,068	398,182	23,882	111,909	127,143	3,931,184	595,057	4,526,241
	100%	$5,429,478	$661,102	$40,370	$199,593	$218,920	$6,549,463	-0-	$6,549,463
									To Sch. 8

	Schedule of Salaries & Wages(1)			
	Dept's	Dept'l Adm	Total	Percentage
College of A & S:				
Dept. A	$1,287,500	$118,900	$1,406,600	13.83%
Dept. B	2,035,000	297,300	2,332,300	22.94
Dept. C	4,071,100	594,600	4,665,700	45.88
Dept. D	1,586,000	178,500	1,764,500	17.35
Total	$8,979,600	$1,189,300	$10,168,900	100%
All Other Colleges	$16,648,204	$2,774,834	$19,423,038	100%

(1) Per Schedule 8b.
(2) Per specific identification and square footage supporting Schedule 3.
(3) Per use of equipment by each function and activity supporting Schedule 4.
(4) Per square footage supporting Schedule 5.
(5) Combined for purposes of brevity. Each College and Department should be computed in a manner similar to the College of Arts and Sciences.
*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____ University

Fiscal Year Ended June 30, 19__

Allocation of Departmental Administration

Schedule 8b

	College of Arts & Sciences						All Other Colleges(1)		Transfers In	Total	
	Dean's Office	Dept. A	Dept. B	Dept. C	Dept. D	Total	Dean's Offices	Dept's	From Other Schedules	Amount	From Sch.
Direct Costs:											
Salaries and wages:											
Instruction		$1,287,500	$1,425,000	$1,508,600	$1,466,000	$5,687,100		$14,494,303		$20,181,403	12
Educational Service Agreements			80,000	842,500	120,000	1,042,500		1,078,870		2,121,370	12
Research			530,000	1,720,000		2,250,000		1,075,031		3,325,031	12
Total Salaries & Wages		$1,287,500	$2,035,000	$4,071,100	$1,586,000	$8,979,600		$16,648,204		$25,627,804	
Other:											
Instruction		$515,000	$475,000	$346,900	$38,200	$1,375,100		$2,884,041		$4,259,141	12
Educational Service Agreements			26,400	379,200	64,800	470,400		562,707		1,033,107	12
Research			185,500	550,400		735,900		239,997		975,897	
Total Other		$515,000	$686,900	$1,276,500	$103,000	$2,581,400		$3,686,745		$6,268,145	
Total Direct Costs		$1,802,500	$2,721,900	$5,347,600	$1,689,000	$11,561,000		$20,334,949		$31,895,949	
Indirect Costs:											
Dept'l Adm:											
Dept'l Costs:											
Sal. & wages		$118,900	$297,300	$594,600	$178,500	$1,189,300		$2,774,834		$3,964,134	
Other		14,300	67,900	146,200	26,700	255,100		495,234		750,334	
Total Dept'l Costs		$133,200	$365,200	$740,800	$205,200	$1,444,400		$3,270,068		$4,714,468	
Dean's Office:											
Sal. & Wages	$161,510					$161,510	$362,700			$524,210	
Other	54,000					54,000	136,800			190,800	
Total Dean's Ofc.	$215,510					$215,510	$499,500			$715,010	
Total Dept. Admin.										$5,429,478	11
Transfers In:											
Gen. & Admin.									$661,102	$661,102	6
Bldg. Use									40,370	40,370	3
Equip. Use									199,593	199,593	4
Oper. & Maint.									218,920	218,920	5
Total Transfers In									$1,119,985	$1,119,985	
Total Indirect Costs to be accounted for as Departmental Administration	$215,510	$133,200	$365,200	$740,800	$205,200	$1,659,910	$499,500	$3,270,068	$1,119,985	$6,549,463	

(1) Combined for purposes of brevity. Each College and Department should be computed in a manner similar to the College of Arts and Sciences.

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____ University

Fiscal Year Ended June 30, 19__

ALLOCATION OF STUDENT SERVICES

Schedule 9

Total Current Expenditures - Student Services (Schedule 12)	$3,569,001
Building Use Allowance (Schedule 3)	46,753
Equipment Use Allowance (Schedule 4)	35,329
Operation and Maintenance (Schedule 5)	266,586
General and Administrative (Schedule 6)	440,253
Total to be Allocated	$4,357,922

Basis of Allocation: Total student hours including student work hours

	Hours	Percentage	Allocation
Student Work Hours:			
Organized Research Work	114,291	.61%	$26,583(2)
Educational Service Agreement Work	87,446	.47	20,482(4)
Other Work	2,121,090	11.36	495,060
Other Student Hours:			
In Classroom(1)	12,735,027	68.20	2,972,103
Other(3)	3,614,746	19.36	843,694
	18,672,600	100%	$4,357,922

(1) Includes Summer Classroom Hours.

(2) To Schedule 10

(3) Hours spent registering, hours spent in job placement interviews, and hours spent in all other related student activities.

(4) To Schedule 11

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____ University

Fiscal Year Ended June 30, 19__

ALLOCATION OF RESEARCH ADMINISTRATION(1) — Schedule 10

Total Current Expenditures - Research Administration (Schedule 12)	$292,922
Building Use Allowance (Schedule 3)	612
Equipment Use Allowance (Schedule 4)	1,932
Operation and Maintenance (Schedule 5)	7,508
General and Administrative (Schedule 6)	33,921
Total to be Allocated	$336,895

Basis of Allocation: Total Expenditures

	Schedule	Organized Research	Educational Service Agreements	Total
Direct Costs:				
Direct Salaries & Wages	12	$3,325,031	$2,121,370	
Other Direct Costs	12	975,897	1,033,107	
Total Direct Costs	12	$4,300,928	$3,154,477	
Indirect Costs:				
Building Use Allowance	3	$84,446	$17,418	
Equip Use Allowance	4	99,282	61,441	
Operation & Maint	5	293,344	55,797	
Gen. and Adm.	6	536,243	368,802	
Library	7	102,278	48,786	
Dept'l Admin.	8	660,555	792,322	
		$6,077,076	$4,499,043	$10,576,119
Percentage		57.46%	42.54%	100%
Allocation:				
Research & ESA Administration		$193,580	$143,315	$336,895
Student Services	9	26,583		
		$220,163	To Schedule 2	
		To Schedule 1		

(1) Note: In this sample format, the administrative costs associated with both research agreements and educational service agreements are administered as one functional activity.

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____ University

Fiscal Year Ended June 30, 19__

ALLOCATION OF STUDENT ADMINISTRATION AND SERVICES — Schedule 11

Total Current Expenditures - Student Administration (Schedule 12)	$197,786
Building Use Allowance (Schedule 3)	1,446
Equipment Use Allowance (Schedule 4)	1,093
Operation and Maintenance (Schedule 5)	8,245
General and Administrative (Schedule 6)	23,096
Total Student Administration to be Allocated	$231,666

Basis of Allocation: Population served equated to full-time equivalents

Group	Population	%	Instruction	Educational Service Agreements	Total
Student Administration:					
Graduate Students:					
Educational Service Agreements	51	.25%		$579	$579
Regular	1,607	7.85	$18,186		18,186
Undergraduate	18,804	91.90	212,901		212,901
Total Student Administration	20,462	100%	$231,087	$579	$231,666
Student Services (Schedule 9) - Add				20,482	
Total Student Administration & Services (To Schedule 2)				$21,061	

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT A

SAMPLE INDIRECT COST PROPOSAL FORMAT (LONG FORM)*

_____ University

Fiscal Year Ended June 30, 19__

SUMMARY OF CURRENT EXPENDITURES

Schedule 12

	CURRENT EXPENDITURES(1)		
	Salaries and Wages	Other	Total
Direct Operating Expenditures			
Instruction	$20,181,403	$4,259,141	$24,440,544
Educational Service Agreements	2,121,370	1,033,107	3,154,477
Research	3,325,031	975,897	4,300,928
Other Institutional Activities	3,802,856	2,295,995	6,098,851
Total Direct	$29,430,660	$8,564,140	$37,994,800
Indirect Operating Expenditures			
Research Administration	$234,664	$58,258	$292,922
Departmental Administration	4,488,344	941,134	5,429,478
Student Services	2,505,902	1,063,099	3,569,001
Student Administration	146,514	51,272	197,786
General and Administrative	4,154,317	2,495,927	6,650,244
Operation and Maintenance	5,016,031	5,603,955	10,619,986
Library	1,673,817	574,745	2,248,562
Total Indirect	$18,219,589	$10,788,390	$29,007,979
Total Operating Expenditures	$47,650,249	$19,352,530	$67,002,779

(1) The amounts shown are after the following examples of adjustments have been made. The adjustments themselves are not shown here for purposes of brevity, but should be included in detail in the indirect cost submission.

(a) Fringe benefits on personnel in indirect cost functions has been allocated to those indirect cost functions; fringe benefits on personnel in direct cost functions are charged directly to those functions.

(b) Capital expenditures have been eliminated.

(c) Unallowable items have been eliminated.

(d) Any applicable credits have been offset.

(e) Cost shared salaries and cost shared expenditures have been transferred from the instruction line to the research line.

*This is a sample only and is not intended to prescribe methods for charging costs nor the order of precedence for allocating costs.

EXHIBIT B

Federal Management Circular 73-8 provides for a simplified or abbreviated approach to the establishment of indirect cost rates for institutions which incur $1 million dollars or less a year in direct costs under Federal research and educational service agreements (less certain exclusions). This approach, described in Section H of the Circular, utilizes a formula to divide an institution's operating expenditures between direct and indirect cost and allows an institution to develop its indirect cost rate from its financial statements without the need for elaborate allocation studies or techniques. Exhibits B-1 and B-2 demonstrate the use of the formula. Exhibit B-1 is meant to lend guidance to the preponderance of institutions which qualify under Section H of FMC 73-8. Exhibit B-2 is meant to lend guidance to those institutions whose staff includes religious or other personnel who serve without compensation or for compensation less than the fair market value of their services.

EXHIBIT B-1

ABBREVIATED METHOD

SAMPLE FORMAT*

Computation of an Indirect Cost Rate
Based on Financial Data for the Fiscal Year
Ended June 30, 19__

Accounts	Reported Expenditures (a)			Eliminations & Adjustments (b)		Adjusted Expenditures				
						Direct Costs		Indirect Costs		
	Salaries & Wages	Other	Total	Salaries & Wages	Other	Salaries & Wages	Other	Salaries & Wages	Other	Total Allowable
Administration:										
President's Office	$49,264	$28,526	$77,790		$4,126(c)			$49,264	$24,400	$73,664
Trustee Expense		5,214	5,214						5,214	5,214
Business Office	171,471	47,082	218,553		1,472(c)			171,471	45,610	217,081
Administrative	7,201	15,555	22,756		14,172(d)			7,201	1,383	8,584
Provost	28,356	1,520	29,876		500(c)			28,356	1,020	29,376(f)
Fringe Benefits		154,019	154,019						154,019	154,019(e)
Student Administration & Services:										
Registrars Office	19,007	8,383	27,390			$19,007	$8,383			
Admissions Office	70,329	16,676	87,005			70,329	16,676			
Placement Office	13,767	818	14,585			13,767	818			
Dean of Men	29,631	2,321	31,952			29,631	2,321			
Dean of Women	18,792	2,311	21,103			18,792	2,311			
Dean of Students	5,015	799	5,814			5,015	799			
Public Relations:										
Vice President's Office	32,505	10,516	43,021			32,505	10,516			
Estate Planning	55,156	35,772	90,928			55,156	35,772			
Corporate Relations	8,268	1,073	9,341			8,268	1,073			
Development Office	46,840	14,771	61,611			46,840	14,771			
Alumni Office	39,638	15,848	55,486			39,638	15,848			
News Bureau	19,112	6,288	25,400			19,112	6,288			
Publications:										
Catalogs		11,768	11,768				11,768			
Alumni Magazine		23,306	23,306				23,306			
Speeches & Bulletins		$3,084	$3,084						$3,084	$3,084
President's Report		4,454	4,454						4,454	4,454
Student Activities:										
Office of the Chaplain	$13,270	12,127	25,397			$13,270	$12,127			
Endowed Lectures		1,000	1,000				1,000			
Assemblies & Convocations		7,282	7,282				7,282			
Commencement		3,734	3,734				3,734			
Health Service	39,728	12,672	52,400			39,728	12,672			
Counseling Service	24,629	6,352	30,981			24,629	6,352			
General:										
Economic Lectures		388	388				388			
Artist Course Tickets		10,060	10,060				10,060			
Theatre Subsidy		9,116	9,116				9,116			
Dues & Memberships		2,748	2,748						2,748	2,748
Auditing		7,384	7,384						7,384	7,384
Miscellaneous		1,130	1,130						1,130	1,130
Plant Operation & Maintenance	261,795	363,302	625,097		$43,990(g)			$261,795	319,312	581,107 (m)
Library	153,253	74,602	227,855		973(g)			153,253	68,629	221,882 (m)
Instruction:					5,000(h)					
Deans & Dept. Heads	261,113	38,655	299,768			208,890	30,924	52,223(i)	7,731	59,954
All Other	1,470,024	508,168	1,978,192			1,447,924	508,168	22,100(k)		22,100
Sponsored Research	220,309	90,600	310,909			220,309	90,600			
Auxiliary Enterprises:					(j)					
Rental Properties	2,320	30,181	32,501			2,320	30,181			
Dormitories	207,333	202,968	410,301			207,333	202,968			
Dining Halls	126,041	461,955	587,996			126,041	461,955			
Book Store	14,136	93,073	107,209			14,136	93,073			
Athletics	23,211	28,796	52,007			23,211	28,796			
Farm	14,632	7,955	22,587			14,632	7,955			
Dairy	32,667	51,674	84,341			32,667	51,674			
Agency Funds:										
Student Organizations	$1,568	$18,066	$19,634			$1,568	$18,066			
Other		76,911	76,911				76,911			
Student Aid		310,000	310,000				310,000			
Work Study Program (l)	100,000		100,000	$80,000		16,000		$4,000(l)		$4,000(l)
Total	$3,580,381	$2,841,003	$6,421,384	$80,000	$70,233	$2,750,718	$2,124,652	$749,663	$646,118	$1,395,781
						(A)				(B)

Indirect Cost Rate Computation

Indirect Cost Rate = B ÷ A

$\frac{\$1,395,781}{\$2,750,718} = 50.74\%$

(See next page for footnotes)

*This is a sample only and is not intended to prescribe methods for charging costs.

NOTES TO EXHIBIT B-1

(a) Total expenditures as reflected in the institution's annual financial statements. The indirect cost rate submission must be accompanied by and reconciled and cross-referenced to the institution's independently audited financial statements. In addition, appropriate schedules including expense type breakdown for all funds which are not included or sufficiently detailed in the audited statements or do not appear in the operating statement must be submitted.

(b) FMC 73-8 prohibits the reimbursement of interest expense, entertainment, etc., as a charge against a Federal grant or contract. It also requires that expenditures for major alterations and renovations and capital assets be excluded from the indirect cost computation. This column effects these adjustments to the institution's financial statements. The column also effects other adjustments to the financial statements necessary to avoid an inequity to the institution or the Federal government.

(c) Elimination of entertainment costs, major alterations and renovations, expenditures for capital assets, and other unallowable costs.

(d) Elimination of insurance under which the institution is beneficiary on the lives of officers, unallowable under FMC 73-8, Section J.15, and annuities paid to third party donors under an income agreement (in this example the annuity payment was recorded as an operating expense).

(e) The sample institution has elected to treat fringe benefits, other than earned absences as indirect costs; therefore, such costs may not be claimed as direct costs on grants or contracts. Conversely, if the institution had elected to charge fringe benefits as direct costs under grants and/or contracts, then only those fringe benefits relating to individuals performing indirect functions would be accepted as indirect costs. (Note: The requirement for consistent treatment applies equally to other costs such as long distance telephone calls, postage expense, date processing costs, etc.).

(f) The cost of the Provost's Office (or Vice President for Academic Affairs, or Academic Dean) is an allowable indirect cost. The Provost, in this example devotes full time to administration. However, if the Provost taught or devoted part of his time directly to grant or contracts then the cost of his office would be allocated between his direct and indirect functions.

(g) This adjustment off-sets (credits) income received from fines, fees, and unrealized income against those activities to which they relate or which include the cost of collecting the income. Commonly, income is received by institutions for library fines, parking fines, parking fees, handling public lecture services, conventions, etc. When actual costs can be identified and associated with the collection of fines and fees, and the services rendered, they should be credited in lieu of revenues; when actual costs cannot be identified it will be assumed, for expediency, that the revenue collected equals the cost incurred.

(h) Elimination is a Federal grant received by the institution for the performance of some library function. The cost of the function, in this example, is included in total library expenditures. The elimination is made to preclude a duplicate recovery of costs.

(i) FMC 73-8 provides that 20% of the cost of the offices of deans of schools and academic department heads shall be considered indirect costs and the balance as instruction and hence a direct cost.

(j) The financial statements of some colleges and universities reflect an allocation of general and administrative and/or operation and maintenance expenses to auxiliary activities. In such instances, the amounts allocated to auxiliary activities should be reclassified back to the G&A and O&M pools. Failure to do so under the abbreviated formula will result in an additional assessment of these costs against auxiliary activities. In this example, the institution's financial statements do not reflect such allocations.

(k) Represents sabbatical leave cost which may be treated as an allowable indirect cost in accordance with Section J.34 of FMC 73-8.

(l) Represents federally funded work study programs. Under this program, students may be employed by an institution to perform a variety of jobs. The wages of the students are sometimes reflected in the institution's financial statements as an expenditure of the particular activity in which they are employed (i.e., instruction, student administration, general administration, auxiliary activities, etc.). In other institutions, as in this example,

the wages are identified as a separate line item in the financial statements. The treatment of these wages in the abbreviated formula should be as follows:

(1) Regardless of the treatment in the financial statements, an elimination should be made for the Government's share of the program (in this example, 80% of $100,000 or $80,000).

(2) Those remaining wages paid students involved in an indirect cost activity should be treated as a part of the overhead pool (in this case $4,000).

(3) The balance, which consists of wages paid for the performance of direct activities, should remain as part of the direct salaries and wages.

(m) The rate of 50.74% developed in the Sample format is applicable to all direct salaries and wages of the institution. Generally, off-campus rates are not negotiated with institutions that use the short form procedure. Therefore, it is essential that consistency of treatment be afforded to all indirect cost elements, (e.g., rental of separate facilities must be treated as an indirect (O&M) cost rather than a direct line item cost on grants and contracts). To the extent that grant or contract agreements have been funded in a manner that reflects a need for an off-campus rate, then that rate shall be developed similar to the sample format of Exhibit B-1 except that it shall not include expenses for plant operation and maintenance and for library.

Adjustment to convert Exhibit B-1 to an off-campus rate

Total allowable indirect costs		$1,395,781
Less:		
Plant operation & maintenance	$581,107	
Library	221,882	802,989
		$ 592,792

$$\text{Indirect Cost Rate} = \frac{\$\ 592,792}{\$\ 2,750,718} = 21.55\%$$

EXHIBIT B-2

Sample Section "H" (Short Form) Computations for Institutions with Donated (Contributed) Services

Some colleges and universities, primarily those with a denominational affiliation, have staff who volunteer their services or who are members of religious orders. Some of these individuals serve as faculty, others as administrators. Generally, they receive no compensation or compensation considerably less than the fair market value of their services. Commonly, the institution makes payment to a religious order on behalf of the serving individuals, the payment approximating the expense of their personal maintenance.

Institutions reflect the service of these individuals in their financial statements by either:

a. showing only the payment actually made to the individuals or on their behalf, or

b. showing the fair market value of the services of the individuals with a reference to the payments actually made to them or on their behalf.

If the former approach is followed an adjustment must be made to reflect the fair market value of the services of those individuals performing direct activities. This adjustment is necessary to prevent an excessive apportionment of indirect costs to those activities performed by full salaried personnel.

If the latter approach is used an adjustment must be made to eliminate any amount contained in the financial statements in excess of the payments actually made by the institution to or on behalf of personnel engaged in administrative (indirect cost) functions. This adjustment is necessary to eliminate from the indirect cost pool amounts which, because they do not represent a real expenditure of the institution, are not reimbursable under Federal cost-type grants and contracts. An amount is not a real expenditure if the institution is not legally liable for and does not, in fact, make payment of the amount shown in the financial statements.

The adjustment required to accomplish the adjustment of the fair market value of such donated services is shown in the following two examples.

Example #1

Assume the following:

(a) Contributed services are reflected in the indirect cost rate proposal only to the extent of the personal maintenance cost paid.

(b) The fair market value of the contributed services performed in the conduct of direct activities in excess of the personal maintenance cost paid is $100,000.

(c) Personal maintenance costs paid by the institution are identifiable and distributed to the benefiting departments as salaries and wages.

(d) Recommended computation:

If the above assumptions are incorporated in the Exhibit B-1 sample computation, the required adjustment would be as shown on next page.

EXHIBIT B-2

Abbreviated Method

Sample Format*

Computation of an Indirect Cost Rate
Based on Financial Data for the Fiscal Year
Ended June 30, 19___

EXAMPLE #1

Account	Reported Expenditures			Eliminations & Adjustments		Direct Costs		Indirect Costs		
	Salaries & Wages	Other	Total	Salaries & Wages	Other	Salaries & Wages	Other	Salaries & Wages	Other	Total
Total Per Exhibit B-1	$3,580,381	$2,841,003	$6,421,384	$80,000	$70,233	$2,750,718	$2,124,652	$749,663	$646,118	$1,395,781
Fair Market Value of Donated Services in Excess of Payments Made	100,000		100,000			100,000				
Adjusted Totals	$3,680,381	$2,841,003	$6,521,384	$80,000	$70,233	$2,850,718	$2,124,652	$749,663	$646,118	$1,395,781
						(A)				(B)

INDIRECT COST RATE COMPUTATION

B ÷ A = Indirect Cost Rate
$1,396,781 ÷ $2,850, 718 = 49.0%

*This is a sample only and is not intended to prescribe methods for charging costs.

Example #2

Assume the following:

(a) The institution has established the fair market value of contributed salaries and wages and has reflected these costs in its report of revenues and expenditures. The report indicates that total donated services inclusive of personal maintenance cost amounts to $250,000.

(b) Personal maintenance costs have been recorded in a maintenance account in the amount of $150,000, but no records have been kept to identify these costs to departments or individuals.

(c) The institution has identified the following personnel as being indirect and has included the fair market value of their services, inclusive of personal maintenance, in its report of expenditures.

President	$30,000
Business Manager	20,000
Provost	28,356
Total Indirect Donated Services	$78,356

(d) Recommended Computation:

(i) Determine ratio between excess of fair market value of donated services over actual personal maintenance costs to fair market value of donated services ((a) and (b) above)

$$\$100,000 \div \$250,000 = 40.0\%$$

(ii) Apply percentage to the fair market value of services identified as indirect to arrive at amount to be eliminated

President	$30,000 X 40% =	$12,000
Business Manager	20,000 X 40% =	8,000
Provost	28,356 X 40% =	11,342
		$31,342

(iii) If the above assumptions were incorporated in the Exhibit B-1 Sample computation, the required adjustment would be as shown on next page.

EXHIBIT B-2

Abbreviated Method

Sample Format*

Computation of an Indirect Cost Rate
Based on Financial Data for the Fiscal Year
Ended June 30, 19__

EXAMPLE #2

Account	Reported Expenditures			Eliminations & Adjustments		Direct Costs		Indirect Costs		
	Salaries & Wages	Other	Total	Salaries & Wages	Other	Salaries & Wages	Other	Salaries & Wages	Other	Total
Total Per Exhibit B-1	$3,580,381	$2,841,003	$6,421,384	$80,000	$70,233	$2,750,718	$2,124,652	$749,663	$646,118	$1,395,781
Donated Service Elimination[1] per d. (ii) above										
President				12,000				(12,000)		(12,000)
Business Manager				8,000				(8,000)		(8,000)
Provost				11,342				(11,342)		(11,342)
Adjusted Totals	$3,580,381	$2,841,003	$6,421,384	$111,342	$70,233	$2,750,718	$2,124,652	$718,321	$646,118	$1,364,439
						(A)				(B)

INDIRECT COST RATE COMPUTATION

B ÷ A = Indirect Cost Rate
$1,364,439 ÷ $2,750,718 = 49.6%

[1] This elimination should be shown on the indirect cost proposal as an adjustment to the account in which the amounts are contained. The elimination is shown here as a below-the-line adjustment only as an expediency.

*This is a sample only and is not intended to prescribe methods for charging costs.

APPENDIX 2

GUIDELINES FOR USE IN ESTABLISHING FIXED INDIRECT COST RATES WITH CARRY-FORWARD PROVISION

APPENDIX 2

GUIDELINES FOR USE IN ESTABLISHING FIXED INDIRECT COST RATES WITH CARRY FORWARD PROVISION

The guidelines set forth herein shall govern the establishment of fixed indirect cost rates utilizing the Carry Forward Provision as permitted in FMC 73-8, Section G-5. They are as comprehensive as possible at this time; in the event, however, of situations not specifically covered herein, the institution should request clarification from the cognizant negotiation agency. This guideline is meant to describe the procedure for effecting the Carry Forward Provision and to identify situations (not necessarily all situations) under which application of the Carry Forward Provision would not be appropriate. The guideline is not meant to imply that the use of the Carry Forward Provision is mandatory either on the Federal Government or the grantee/contractor institution.

I. The Carry Forward Provision shall not be used as a device the purpose of which is to transfer unrecovered cost under one or more contracts and grants to other contracts and grants.

II. An indirect cost rate(s) with a Carry Forward Provision will not be utilized when all or a substantial portion of the Federal grants/contracts which provide for overhead reimbursement to an institution will expire or be terminated before the Carry Forward can be effected.

III. Indirect cost rates with Carry Forward Provision will be negotiated only for periods coincident with an institution's fiscal year.

IV. For purposes of computing under or over recovery in a given rate period it will be assumed that reimbursement of indirect costs for that period was made at the fixed rate irrespective of actual dollar recovery. (NOTE: In unusual cases the dollar recovery may exceed the fixed rate recovery; the principles still apply).

V. The Carry Forward will be accomplished by application of the formula below. If fixed indirect cost rates with Carry Forward provisions are needed for both research and educational service agreements, they must be computed separately.

$$(ab - c) - db = c'$$

Where:

a = Fixed rate established for a given fiscal period

b = Direct cost base experienced during the fixed rate period

c = Dollar amount of Carry Forward from prior period

c' = Dollar amount of Carry Forward for next negotiated period

d = Negotiated actual rate for the given fiscal period covered by rate (a).

Example:

1) Given, that in FY 1973, the year prior to the initial year in which this Carry Forward procedure is to be utilized, institution XYZ experienced an actual indirect cost rate of 40% of direct salaries and wages: total indirect cost of $3,200,000 ÷ total direct salaries and wages of $8,000,000.

In the absence of data indicating a material change in the institution's level of operations during its next fiscal year, it is agreed that the 40% rate will be fixed, with Carry Forward Provision, for the institution's FY 1974 and, to maximize the administrative advantages of the procedure the period of applicability is extended through the institution's FY 1975.

2) Sometime after June 30, 1974, it is determined that the institution's actual rate for its FY 1974 was 43% of direct salaries and wages: total indirect costs of $4,300,000 ÷ total direct salary and wages of $10,000,000. To determine the Carry Forward amount the aforementioned formula is applied:

$$(ab - c) - db = c'$$

Substituting: $(40\% \times \$10,000,000 - o) - 43\% \times 10,000,000 = c'$

Simplifying $\$4,000,000 - \$4,300,000 = -\$300,000$

Since the minus sign indicates an underrecovery of $300,000 by the institution during fiscal 1974, the $300,000 is added to the previously determined pool of $4,300,000. The resultant rate of 46% ($4,600,000/$10,000,000) is fixed for the institution's FY 1976. (NOTE: Since Fiscal 1975 has already been fixed it is not possible to reopen the rate for that year)

3) Sometime after June 30, 1975 it is determined that the institution's actual rate for its FY 1975 was 41% of direct salaries and wages: total indirect costs of $3,690,000 ÷ total direct salaries and wages of $9,000,000. Again applying the formula:

$$(ab - c) - db = c'$$

$$(40\% \times \$9,000,000 - o) - 41\% \times \$9,000,000 = c'$$

$$\$3,600,000 - \$3,690,000 = -\$90,000$$

Again, the institution has an underrecovery, this time in the amount of $90,000. Thus $90,000 is added to the already determined pool of $3,690,000 and a fixed rate of 42% ($3,780,000/$9,000,000) is established for the institution's FY 1977.

NOTE: As in paragraph 2) above c has a value of zero dollars since the base year, 1973, had no Carry Forward element.

4) Sometime after June 30, 1976 it is determined that the institution's actual rate for FY 1976 was 39% of direct salaries and wages: total indirect costs of $3,627,000 ÷ total direct salaries and wages of $9,300,000. Again applying the formula:

$$(ab - c) - db = c'$$

$$(46\% \times \$9,300,000 - \$300,000) - 39\% \times 9,300,000$$

$$(\$4,278,000 - \$300,000) - \$3,627,000 = c'$$

$$\$3,978,000 - \$3,627,000 = + \$351,000$$

Thus in fiscal 1976 the institution had an overrecovery of $351,000. Thus a fixed rate of 35.2% ($3,627,000 − $351,000 divided by the $9,300,000 base) is established for the institution's FY 1978.

It is important to understand that c' becomes c in the period during which the dollars are carried forward and that c is always expressed as a dollar amount. The latter is necessary since the base will inevitably vary from period to period and consequently the differential if expressed as a percentage rather than a dollar amount would produce a distortion.

VI. As a general rule, the last actual rate (adjusted for any Carry Forward from a prior period) agreed to by the cognizant agency and the institution will be used as the fixed rate for the next stipulated future period. However, where there is knowledge that an institution's level of operations or mix of Federal support will materially change during such period, the change will be duly considered in establishing the fixed rate.

VII. In the event that an institution has a multiple rate structure developed on discrete bases, recovery will be assumed to be at the appropriate fixed rate against the corresponding base. The fixing of rates under a given rate structure in a given year shall not preclude a later combination of such rates, or, conversely, establishment of future discrete rates, for future periods.

VIII. When the actual rate for a period is found to materially vary from the rate which was fixed for that period, and the resulting dollar variation is so great as to cause an unreasonable distortion in the next rate period's overhead pool, the variation may be carried forward to the next two rate periods. However, this procedure may not be used if its ultimate effect will be the intensification of variances in future periods.

IX. If, for any reason, a grant or contract is placed in a different base (e.g. educational service agreement base in lieu of sponsored research base) during a fixed rate period other than the base in which it was included for purposes of establishing the fixed rate, the cognizant negotiation agency may elect to restore the item to its original status for purposes of rate computation irrespective of any variation in recovery.

X. With respect to those institutions which currently have predetermined indirect cost rates, the Carry Forward Provision shall not be utilized until the beginning of the institution's fiscal year following the terminal date of the predetermined rate period. In the event that the terminal date of the predetermined rate period does not coincide with the end of the institution's regular fiscal year, the application of the Carry Forward Provision will only be effective against the base costs incurred from the terminal date of the predetermined rate period until the end of the institution's regular fiscal year. In any succeeding years in which the terminal date is different from the fiscal year ending date, the bases will be adjusted accordingly. As a matter of policy, fixed rates will only be established for periods coincident with the institution's fiscal year.

XI. To preclude inequities to the Government and the institution, an institution may not change its costing procedures (including its classification of costs as direct or indirect) without the written approval of the cognizant negotiation agency. Such change(s) should preferably be made effective at the beginning of a fixed rate period; if effective at a different time, the Federal agency shall not be, but the institution may be, liable for any difference in resulting cost.

XII. In the event an off-site or other special rate is determined as a derivative of the on-site rate (i.e. the rate is determined by eliminating selected elements of the indirect cost pool without establishing a corresponding discrete base), it will be assumed that recovery was made at the on-site rate. The carry forward should be computed as follows:

1. Fixed rates with carry forward provision are agreed to for the first time for the institution's FY 1974. In the absence of data indicating a material change in the institution's level of operations from FY 1973 to FY 1974 it is further agreed that the fixed rates for FY 1974 will be based on FY 1973 experience.

Fixed Rates for FYE 6/30/74

On-Site	40%
Off-Site	24%

2. Sometime after 6/30/74, the actual rates for FYE 6/30/74 are negotiated as-well-as the total direct salary and wage base for FYE 6/30/74.

Negotiated Rates and Base for FYE 6/30/74

	Rate	*Pool*	*Base*
On-Site	43%	$4,300,000(a)	
Off-Site	26%	$2,600,000(a)	
Base			$10,000,000(a)

(a) In negotiating actual rates for FYE 6/30/74, agreement must also be reached on a negotiated base. The negotiated base amount is needed to determine the carry forward amount. It is not necessary to know individually negotiated elements that make up either the on-site or off-site pool. The negotiated pools for on-site and off-site are determined by applying the negotiated rates to the negotiated base. In this illustration, the negotiated pools are only needed if FYE 6/30/74 negotiated data is used in the computation of fixed rates for FYE 6/30/76.

3. The FYE 6/30/74 carry forward is computed.

	Fixed	*Negotiated*	*Diff. (c)*	*Base (d)*	*Carry Forward (c)X(d)*
Off-Site Rate	24%	26%	2%	$10,000,000	$200,000
Portion of rate applicable to On-Site only	16	17	1	$10,000,000	100,000
On-Site Rate	40%	43%	3%(b)	$10,000,000	$300,000(a)

(a) The $300,000 underrecovery is carried forward to FYE 6/30/76 and used in determining the FYE 6/30/76 fixed rate.

(b) The difference between the fixed and negotiated on-site rate applied to the negotiated base to arrive at the carry forward assumes that recovery was made at the on site rate.

4. A fixed rate is determined for FYE 6/30/76 prior to the beginning of that fiscal year.

	Negotiated for FYE 6/30/74 (a)	*Carry Forward from FYE 6/30/74*	*Total*	*Fixed Rate for FYE 6/30/76*
Off-Site	$ 2,600,000	$200,000	$ 2,800,000	28%
Portion of rate/pool applicable to On-Site only	$ 1,700,000	100,000	1,800,000	18
On-Site	$ 4,300,000	$300,000	$ 4,600,000	46%
Base	$10,000,000		$10,000,000	

(a) FYE 6/30/74 data need not be used. More current data may be used where available. However, more current data must be expressed, at a minimum, in terms of dollars for the base, for the off-site pool and for the on-site pool.

5. Sometime after 6/30/76, the actual rates for FYE 6/30/76 are negotiated as-well-as the total direct salary and wage base for FYE 6/30/76.

Negotiated Rates and Base for FYE 6/30/76

	Rate	*Pool*	*Base*
On-Site	39%	$3,627,000(a)	
Off-Site	22%	$2,046,000(a)	
Base			$9,300,000

(a) Same as footnote (a) under 2. above.

6. The FYE 6/30/76 carry forward is computed.

	Grantee Received in FYE 6/30/76			*Grantee Should have Received in FYE 6/30/76*			
	Fixed Rate	*FY 1976 Base*	*Indirect Costs*	*FYE 1974 Carry Forward*	*Negotiated*	*Total Indirect Costs*	*Carry Forward*
Off-Site	28%	$9,300,000	$2,604,000	$200,000	$2,046,000	$2,246,000	($358,000)
Portion of rate/ pool applicable to On-site only	18%	$9,300,000	1,674,000	100,000	1,581,000	1,681,000	7,000
On-Site	46%	$9,300,000	$4,278,000(b)	$300,000	$3,627,000	$3,927,000	($351,000)(a)

(a) The $351,000 overrecovery is carried forward to FYE 6/30/78 and used in determining the FYE 6/30/78 fixed rate.

(b) It has been assumed that recovery was made at the on-site rate.

7. These computations have been structured to illustrate a carry forward process that began in FYE 6/30/74 and the fiscal years that were subsequently affected by the initial fixing of the indirect cost rate. A similar cycle would have been initiated for the FYE 6/30/75 and subsequent years.

APPENDIX 3

SAMPLE FORM
ACTIVITY REPORT

ACCOUNTING FOR SALARIES AND WAGES
ACTIVITY REPORT

Federal cost reimbursement policies are based on the fundamental precept that charges for services rendered to a given activity (including grants and contracts) be reflective of the approximate benefits received by that activity. Since the preponderance of cost incurred by colleges and universities are personnel related (i.e., salaries and wages and associated fringe benefits), it is particularly important that such institutions maintain adequate payroll distribution systems to identify the amount of time or effort employees devote to the activities of the institution.

The Federal Government has not prescribed a standard payroll distribution system or format. The cost principles in FMC 73-8 permit wide latitude to colleges and universities on the type of recordkeeping and documentation which may be used to account for charges to Federal awards. However, regardless of the system used by the institution, sound accounting and administrative practice dictates that an institution's system must, as a minimum, provide for:

1. A report accounting for the distribution of 100% of the total time or effort of institutional personnel whose salaries or wages are charged in whole or in part directly to a Federal grant or contract. This requirement also applies to personnel engaged in activities that affect the determination of indirect cost rates if their time or effort is chargeable to more than one institutional activity. Without an accounting for 100% of an employee's time or effort there can be no assurance that all such time or effort is fairly distributed to benefiting activities.

2. A certification by the employee or by a responsible supervisory official having first-hand knowledge of his activities that the distribution of time or effort represents a reasonable estimation of the actual services rendered by the employee during the period covered by the report. In order to ensure that such certificates reflect the actual distribution of time or effort, they must be made on an after-the-fact basis.

3. The completion of the report at least as frequently as prescribed by FMC 73-8. FMC 73-8 does not explicitly address itself to the frequency of reports needed to support salary or wage charges for individuals who are involved in both direct and indirect activities. However, sound accounting and administrative practice would normally dictate that 100% of an individual's time be accounted for on a monthly basis where a requirement exists for a monthly accounting for direct personal services.

4. A reconciliation of the time or effort reflected in reports designed to satisfy FMC 73-8 requirements with personnel activity reports prepared for other purposes, such as those submitted to State or local agencies, legislative bodies, or Federal agencies in compliance with requirements established by those agencies or bodies. Activity reports prepared for similar but different purposes which reflect wide discrepancies in the accounting of personnel time or effort are by their very nature suspect and are likely to result in audit exceptions.

The sample form included in this Appendix portrays the level of detail an institution which carries on instruction, research, public service, or other sponsored activities is likely to find necessary to measure the time or effort (and associated salary and wage costs) involved in the conduct of those activities. The form is intended only as a guide; it is not meant to prescribe a specific reporting format or system. Institutions may adopt whatever forms and procedures they feel are appropriate to their own particular needs, provided they result in a reasonable allocation of salary and wage costs to Federally sponsored awards.

SAMPLE FORMAT
ACTIVITY REPORT

FOR THE PERIOD ENDED _____

Check One:

☐ Monthly
☐ Yearly
☐ Other–Specify _____

Name _____
Position _____
Department _____
College/School _____
Prepared By _____

ACTIVITIES	PERCENTAGE OF TOTAL EFFORT*
1. Instruction	%
2. Organized Research**	%
3. Educational Service Agreements (ESA)**	%
4. Public Service and Other Sponsored Projects**	%
5. Patient Care Services	%
6. Student Administration and Services	%
7. Departmental Administration:	
a. Instruction Related	%
b. Research/Sponsored Projects Related	%
c. Joint Benefit	%
8. Research Administration	%
9. College/School Administration	%
10. General Administration	%
11. Other Institutional Activities	%
Total Effort***	100%

I certify that this distribution of time or effort represents a reasonable estimate of the effort (time) expended by (me) (this employee) during the period covered by this report.

_____
Signature of Employee or Supervisory Official

*If the distribution is based on time, hours should be used in lieu of percentages of effort.
**Effort devoted to research projects, educational service agreements, and other sponsored projects must be broken out by individual project.
***Total effort must be expressed as 100% irrespective of the number of hours devoted to the activities.

ACTIVITY REPORT
ACTIVITY DEFINITIONS

I. INSTRUCTION:

A. *Teaching*—Effort spent on all activities related to scheduled and unscheduled courses taught, such as lecturing, tutoring, independent study, supervising laboratory course work, supervising assistants, preparing for scheduled teaching, acquiring and preparing media, organizing necessary conferences and activities supervising thesis courses and/or preparation, grading of papers, making necessary community contact, etc.

B. *Course and Curriculum Development*—Effort spent on preparing outlines and book lists for teaching future courses, devising and developing new instructional techniques, preparing or revising manuals, tapes, slides, etc.

C. *Academic Advising and Development*—Effort spent advising, evaluating, counseling, etc., students on matters related to subjects taught.

D. *Departmental Research*—Effort spent pursuing one's own professional interest through research, writing, etc., that is not directly related to specific course instruction or course preparation. This is effort neither separately budgeted nor accounted for and is supported by departmental funds not specifically designated as research.

E. *Other*—Effort expended on other instruction related activity, if any, not defined above. Specify. This category excludes effort expended on educational service agreements.

II. ORGANIZED RESEARCH—Effort spent on specific research projects which are separately budgeted and accounted for by the institution (i.e., Federal, State, city or private foundation contracts and grants and research projects supported by institutional funds). This category includes effort used to satisfy cost sharing or matching requirements on research grants and contracts as well as effort for which reimbursement will be claimed.

III. EDUCATIONAL SERVICE AGREEMENTS—Effort spent on specific sponsored training projects which are separately budgeted and accounted for by the institution. Typical of the work covered by this category are summer institutes, special training programs for selected participants, professional or technical services to cooperating countries, the development and introduction of new or expanded courses, and similar instructional oriented undertakings, including special research training programs. This category includes effort used to satisfy cost sharing or matching requirements on educational service agreements as well as effort for which reimbursement will be claimed.

IV. PUBLIC SERVICE AND OTHER SPONSORED PROJECTS—Effort spent on specific projects, i.e., community action and service programs, which are separately budgeted and accounted for by the institution and do not qualify as either research or educational service agreements. This category includes effort used to satisfy cost sharing or matching requirements on these projects as well as effort for which reimbursement will be claimed.

V. PATIENT CARE SERVICES—Effort expended (a) in treating patients as an attending physician or (b) in providing personal identifiable medical services to patients, or (c) teaching or supervising hospital staff where such duties are not reported as instruction. Includes only that effort for services rendered in accordance with the workload assignment agreement between the reporting individual and his (her) university and for which compensation is paid as an employee of the university. It does not include services rendered by an individual outside his (her) work commitment to the university.

VI. STUDENT ADMINISTRATION AND SERVICES—Effort expended in performing activities related to student affairs and student services, such as deans of students, admissions, registrar, counseling and placement services, student advisers, student health and infirmary services, commencements, and convocations, etc.

VII. ADMINISTRATIVE - DEPARTMENTAL—Effort expended performing supervisory or managerial activities related to a department, (or equivalent unit), such as functioning as a department head, administering personnel policies, assigning faculty workloads, preparing unit budgets, etc. Includes activities related to committees established to deal with departmental concerns, i.e., curriculum, admissions, faculty candidates, etc.

Departmental administration should be categorized to the extent necessary to fairly associate costs related to federally-supported activities as opposed to all other activities. In some instances, a fair presentation of costs can be accomplished through three categories, (1) instruction related, (2) activities related to organized research, public service and other sponsored projects, and educational service agreements, and (3) joint benefit. In other instances, however, more or fewer categories may be appropriate. Definitions of the activities represented by these categories are:

A. *Instructional Related*—Involves administrative effort at the departmental level that exclusively benefits instruction. Effort devoted to Departmental committees such as: curriculum, admissions, faculty candidates, etc., would fall within this category. Does not include direct administrative effort related to courses taught.

B. *Organized Research Related*—Involves administrative effort at the departmental level that exclusively benefits organized research. Does not include direct administrative effort related to participation in specific projects.

C. *Public Service and Other Sponsored Projects*—Involves administrative effort at the departmental level that exclusively benefits Public Service and other sponsored projects. Does not include direct administrative effort related to participation in specific projects.

D. *Educational Service Agreement Related*—Involves administrative effort at the departmental level that exclusively benefits Educational Service Agreements. Includes departmental effort associated with summer institutes, special training programs for selected participants, professional or technical services to cooperating countries, the development and introduction of new or expanded courses, and similar instructional oriented undertakings, including special research training programs, that are separately budgeted and accounted for by the institution. Does not include direct administrative effort related to participation in specific projects.

E. *Joint Benefit - Departmental*—Involves administrative effort the purpose and benefits of which are not reasonably distinguishable solely with any of the prior categories.

VIII. **RESEARCH ADMINISTRATION**—Supervisory, managerial or administrative effort expended as a member of a separate organization or identifiable administrative unit established solely to administer the research activity, including such functions as contract administration, purchasing, personnel administration, and editing and publishing research reports. If responsibility also includes administering educational service agreements and/or public service and other sponsored projects, include that effort here and change the activity title to reflect the additional activities being serviced.

IX. **ADMINISTRATIVE - SCHOOL/COLLEGE: General**—Effort expended in performing supervisory or managerial or administrative activities related to a school/college (or equivalent unit) such as serving as the dean, or working in the dean's office administering personnel policies, preparing school/college budgets, gathering data, etc. Includes activities related to committees established to deal with general school/college matters, i.e., program planning, budget, curriculum, etc.

X. **ADMINISTRATIVE - GENERAL: General**—Effort expended in performing supervisory or managerial or administrative activities related to institutional administration such as preparing institution-wide budgets or participating in the institution-wide budget process, planning, administering personnel policies, gathering data, etc. Includes activities related to committees established to deal with institution-wide concerns, i.e., long-range planning, institution budget, executive secretary, etc.

XI. **OTHER INSTITUTIONAL ACTIVITIES**—Effort expended in performing activities not identified in any other category, such as student activities, i.e., intramural activities, student publications, student clubs, etc., auxiliary enterprises, e.g., residence halls, dining halls, student union, theater.

APPENDIX 4

PROCEDURES FOR SETTLEMENT OF INDIRECT COSTS ON DHEW PROJECT GRANTS WITH FINAL NEGOTIATED RATES

PROCEDURES FOR SETTLEMENT OF INDIRECT COSTS ON DHEW PROJECT GRANTS WITH FINAL NEGOTIATED RATES

Introduction

The purpose of this Exhibit is to define procedures for implementing requirements of Chapter 6-150 of the DHEW Grants Administration Manual. The chapter relates to the award and settlement of indirect costs on DHEW project grants and the method for effecting settlement of claims for unrecovered indirect costs resulting from the establishment of final negotiated rates. Institutions receiving grant support from the Department of Health, Education, and Welfare must abide by these procedures in the preparation and submission of the Summary Report of Expenditure Adjustment Sheets so that the review, validation and subsequent settlement of submissions may be accomplished in a timely manner.

Grants to be Reported

A. When a final indirect cost rate is established, the grantee institution is expected to initiate any adjustments resulting therefrom. Reference should be made to the subsequent section of this Appendix, Method of Reporting, to determine the procedures to be used in identifying grants requiring adjustment. All project grants governed by a final indirect cost rate negotiation agreement shall be reported whether an adjustment is due or not. Upward adjustments will not be considered if a final Report of Expenditures has not been previously submitted.

B. Certain research grants are subject to statutory or administrative limitations as indicated:

1. Grants with award dates from July 1, 1965 through October 17, 1965 are limited to actual indirect costs or 20% of TDC, whichever is the lesser. The limitation is effective only for the budget period of the award. Related continuation grants will follow the policy stated in paragraph B.3. below.

2. Continuation and competing new and renewal grants awarded October 18, 1965 through February 28, 1966 are limited to 90% of actual indirect costs or 20% of total direct costs, whichever is the lesser.

3. Continuation grants related to projects, the initial year of which was awarded prior to March 1, 1966, shall be limited to the lesser of 90% of actual indirect costs or 20% of total direct costs. It should be noted that the award date, not the start date of the budget period, is controlling for purposes of determining the applicable time period.

4. Grants that received a reduced indirect cost award due to the absence of a negotiated indirect cost rate agreement will have adjustments computed on a pro rata basis subject to the number of months indirect costs was allowed.

C. Institutions with fixed or predetermined rates may still be eligible for settlement under these procedures. The criteria for determining settlement eligibility is based upon the grantee receiving full indirect cost entitlement for each qualified grant using the appropriate negotiated rates for the grant period involved. If full indirect costs have not been received, then the summary listings should be completed and submitted in accordance with the procedures contained in this Exhibit.

Period to be Reported

Grantees shall use the Summary Adjustment Sheet for all grant budget years beginning on or after July 1, 1965. Adjustments shall be reported for terminal years of grants as well as preceding years. Separate Summary Adjustment Sheets shall be submitted for each *Federal fiscal year* and will contain grants applicable to that year only.

Method of Reporting

A. All project grants will be listed on the Summary Report of Expenditures Adjustment Sheet in accordance with the format shown in the attached Appendix 4a. A separate adjustment sheet will be prepared for each Agency for each *Federal fiscal year* showing only those grants having a budget period start within that fiscal year. Grants shall be arranged in numerical order by transaction number. When more than one rate applies to the same grant budget year, the report data applicable to each rate used must be shown on separate lines of the same page. Expenditures are to be shown to the nearest whole dollar by rounding upwards for $.50 or above and dropping amounts of $.49 or less. The columns headed "IC Adjustment," "Cost Sharing" and "Net IC Adjustment" shall

be totalled for each Agency. As a further aid in identifying information requested under the summary report headings, explanatory footnotes have been included on the sample report form.

B. To assist grantee institutions in reporting project grants and expedite the processing of Summary Report of Expenditures Adjustment Sheets, the National Institutes of Health will provide separate tabulated lists by *Federal fiscal year* of NIH grants and grants from certain other organizational components of the Public Health Service subject to adjustment. Listings from this source will be forwarded and will be in the same format as Exhibit D-1. Sufficient space will be provided beneath each heading for insertion of required data. The grantee may return reproduced copies of this form as its completed submission. Due to the possibility of omissions occurring in such listings, the responsibility for reporting all project grants remains with the grantee. It will also be the responsibility of the grantee institution to prepare separate adjustment sheets for each DHEW agency not represented on the tabulated lists provided to it by NIH.

Accountability of Settlement Funds

A. When validation (by DHEW Agency) of the Summary Report of Expenditures Adjustment Sheets for each fiscal year or series of fiscal years has been accomplished, the resulting payment or collection of funds for all DHEW Agencies will be handled through the Office of Financial Management, National Institutes of Health. A single Treasury Check or Bill of Collection will be sent to each grantee institution based upon the net total dollars of indirect cost adjustments submitted and approved. All financial transactions will be processed outside the Departmental Federal Assistance Financing System rather than through normal grant payment/collection procedures. Therefore, to maintain a reconciling balance with grant funds previously received from DHEW, grantee institutions are instructed to charge an account other than the original grant account with any indirect cost settlement funds received or disbursed. Supplemental award notices will not be issued for upward adjustments.

B. After the adjustment sheet is submitted, neither increases nor decreases in indirect costs due to the application of final negotiated rates are to be reflected in any way on individual Report of Expenditures previously submitted and/or processed. Adjustments to direct costs will continue to be reported in the usual manner.

Transmittal Requirements

A. When final indirect cost rates are negotiated, the DHEW Office of the Regional Comptroller will remind grantees of the requirement to submit a Summary Report of Expenditures Adjustment Sheet within one (1) year from the date of execution of the negotiated agreement. If Summary Report of Expenditures Adjustment Sheets are not received within the time limitation, upward adjustment of indirect costs will not be considered.

B. The grantee will prepare an original and two (2) copies of the Summary Adjustment Report, certify to the accuracy and completeness of the data reported, and forward to the following address:

Department of Health, Education, and Welfare
National Institutes of Health
Office of Financial Management
Indirect Cost Management Section
Building 31, Room B1B07
Bethesda, Maryland 20014

Acknowledgement will be sent the grantee institution upon receipt of their submission. Copies of the Summary Adjustment Report will be distributed by NIH to the applicable Regional Audit Office and to each awarding Agency.

C. Direct inquiry regarding the subject material contained herein may be made by contacting the Indirect Cost Management Section on (301) 496-5315.

APPENDIX 4a

SUMMARY REPORT OF EXPENDITURES
ADJUSTMENT SHEET

Institution Various
Address Anywhere, U.S.A.

I/C Rate Alternative 1(8)
Adjustment Period (Fed. Fiscal Year) 7/1/65-6/30/66

Transaction Number	Grant Number & Governing Date	Grant Budget Period		Allowable Cost Base		Final I/C Rate		Allowable IC Amount	I/C Paid Per ROE	I/C Adjustment	Cost Sharing	Net I/C Adjustment
		From	To	TDC	S&W	TDC -%	S&W -%					
	(1)	(2)			(3)		(4)	(5)	(6)		(7)	
	National Institutes of Health											
(A)	01-010000	1-R01-HE-10000-01	8/1/65	7/31/66	$20,000	$8,000	40.00	$3,200	$2,400	$800	$-0-	$800
(B)	02-020000	5-R01-HE-20000-02 GD 3/1/65	3/1/66	2/28/67	20,000	8,000	(90%x30.00)	2,160	3,600	(1,440)	-0-	(1,440)
(C)	01-030000	1-R01-AM-60000-01	4/1/66	3/31/67	20,000	8,000	60.00	4,800	3,200	1,600	80	1,520
(D)	01-031000	1-R01-AM-40000-01	12/1/65	11/30/66	20,000	8,000	20.00	4,000	4,000	-0-	-0-	-0-
(E)	01-040000	1-R01-AM-50000-01	5/1/66	4/30/67	20,000	8,000	40.00	3,200	4,000	(800)	(40)	(760)
										$160	$40	$120

NOTES:

General - Prepare separate adjustment sheet for each Agency (Office of Education, NIH, SRS, etc.). Show amounts to nearest whole dollar.

(1) Obtain number from award statement; arrange in numerical order by five digits of transaction number.

(2) Governing Date - For continuing projects for which the original award was made before March 1, 1966, indicate basic award date.

(3) Record allowable cost base chargeable to grant; if base different from TDC or S&W, state the formula used.

(4) Show a line entry for each different indirect cost rate used for a grant.

(5) The allowable IC amount for grants subject to statutory or administrative limitations should show only the amount allowable up to the limitation. The allowable amount in these instances should be footnoted and explained.

(6) Record amount of indirect cost paid to your institution as shown on the annual report of expenditures.

(7) If cost sharing was reflected in previous indirect cost amount claimed, compute amount to enter in this column by multiplying dollars of IC adjustment x cost sharing rate. Disregard this column if an institutional cost sharing method is used rather than cost sharing by individual grant for the period indicated.

(8) Rate alternative 3 is mandatory for use on all grants awarded after July 1, 1971. Rate alternative 3 means that the indirect cost rates established for the period in which direct expenditures are actually made are applied to those expenditures. That means that each grant budget year that does not coincide with a grantee's fiscal year will always have two indirect cost rates applicable to each grant budget year. Prior to July 1, 1971, grantees could also elect to use either Rate alternative 2 or 1. Rate alternative 2 required that the indirect cost rate established for the fiscal period in which the preponderance (in time) of the grant budget year occurred was applied to the entire grant budget year. Rate alternative 1 required that the indirect cost rate established for the fiscal year in which the grant budget year began be applied to the entire grant budget year.

(A) Provisional rate of 30% S&W was finalized at 40% S&W (IC amount using final rate is less than 20% TDC).

(B) Provisional rate of 50% S&W was finalized at 30% S&W (90/20 policy applies, claim limited to 90% x final rate x S&W).

(C) Provisional rate of 40% S&W was finalized at 60% S&W (cost shared through individual cost sharing agreement - 5% of total project costs).

(D) Provisional rate of 60% S&W was finalized at 70% S&W (90/20 policy applies, claim limited to 20% TDC).

(E) Provisional rate of 50% S&W was finalized at 40% S&W (cost shared 5% through individual cost sharing agreement).

I hereby certify that the above information is true, complete and accurate to the best of my knowledge and that expenditures reported have been made in accordance with appropriate grant policies.

Signature & Title

Date

APPENDIX 5

SAMPLE

NA-1 (FMC 73-6) Negotiation Agreement

NA-1 is a negotiation agreement form used where the DHEW is the cognizant negotiating agency. A somewhat similar form, NA-1(E) is not illustrated. It is used to transcribe negotiated rates onto a DHEW negotiation agreement from an agreement negotiated by another Federal agency.

NEGOTIATION AGREEMENT

Colleges and Universities
FMC 73-6 Negotiation

DATE June 9, 1974

INSTITUTION: ABC University
Rockville, Maryland

FILING REF: This replaces Negotiation Agreement dated June 2, 1973

The indirect cost rate(s) contained herein is for use on grants and contracts with the Federal Government subject to the conditions contained in Section II.

SECTION I: RATES

	Effective Period From	To	Rate*	Locations	Applicable to
Predetermined	7/1/73	6/30/74	58.5%	On-Campus	Research
Predetermined	7/1/73	6/30/74	35.0%	Off-Campus	Research
Predetermined	7/1/73	6/30/74	64.3%	On-Campus	ESA**
Predetermined	7/1/73	6/30/74	38.4%	Off-Campus	ESA**
Fixed	7/1/74	6/30/75	60.3%	On-Campus	Research
Fixed	7/1/74	6/30/75	37.1%	Off-Campus	Research
Fixed	7/1/74	6/30/75	67.4%	On-Campus	ESA**
Fixed	7/1/74	6/30/75	41.2%	Off-Campus	ESA**
Provisional	7/1/75	Until Amended	Use same rates as for period 7/1/74-6/30/75		

*BASE: Direct salaries and wages, including vacation, holiday and sick pay but excluding other fringe benefits.

Treatment of Fringe Benefits: Fringe benefits applicable to direct salaries and wages are treated as direct costs.

**Educational Service Agreements

NA-1 (FMC 73-6)

SECTION II: General

A. LIMITATIONS: Use of the rate(s) contained in this agreement is subject to any statutory or administrative limitations and is applicable to a given grant or contract only to the extent that funds are available. Acceptance of the rate(s) agreed to herein is predicated on the conditions: (1) that no costs other than those incurred by the Grantee/Contractor were included in its indirect cost pool as finally accepted and that such costs are legal obligations of the Grantee/Contractor and allowable under the governing cost principles, (2) that the same costs that have been treated as indirect costs are not claimed as direct costs, (3) that similar types of costs have been accorded consistent accounting treatment, and (4) that the information provided by the Grantee/Contractor which was used as a basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially incomplete or inaccurate.

B. ACCOUNTING CHANGES: If a fixed or predetermined rate(s) is contained in this agreement, it is based on the accounting system in effect at the time the proposal was prepared and the agreement was negotiated. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this rate(s) require the prior approval of the authorized representative of the cognizant negotiation agency. Such changes include but are not limited to changes in the charging of a particular type of cost from indirect to direct. Failure to obtain such approval may result in subsequent cost disallowances.

C. FIXED RATES: If a fixed rate is contained in this agreement, it is based on an estimate of the costs which will be incurred during the period to which the rate applies. When the actual costs for such period have been determined, an adjustment will be made in a subsequent negotiation to compensate for the difference between the costs used to establish the fixed rate and actual costs.

D. FOR DHEW AWARDS ONLY: Indirect cost reimbursement on all DHEW awards made subsequent to June 30, 1971, will be determined based upon the indirect cost rates established for the fiscal period in which the applicable direct expenditures are incurred. For grants awarded prior to July 1, 1971, the Institution elected rate alternative number 1.

E. USE BY OTHER FEDERAL AGENCIES: The rate(s) contained herein was negotiated in accordance with the authority set forth in General Services Administration Federal Management Circular (FMC) 73-6. Copies of this document may be provided to other Federal agencies as a means of notifying them of the agreement contained herein.

F. The cost categories designated by an asterisk below are normally treated as direct costs by this Institution when such costs can be identified specifically with a Government award, an instructional activity, or any other direct institutional activity, or when they can be directly assigned to such activities relatively easily with a high degree of accuracy.

*1. Salaries and wages including vacation, holiday and sick leave pay.
*2. Overtime premium.
*3. Consultant costs.
*4. Employee fringe benefits related to direct salaries and wages. (Also See Section I).
*5. Material, supplies, and equipment.
*6. Communication costs such as long distance telephone calls, mailing, cablegrams, etc.
*7. Travel expenses.
*8. Freight charges.
9. Other:

a.
b.
c.

G. SPECIAL REMARKS: None

By the Institution

Peter W. Reems Peter W. Reems /s/
Name

Comptroller
Title

6/13/74
Date

By the Cognizant Negotiation Agency On Behalf of the Federal Government

Department of Health, Education & Welfare
Agency

Francis A. Willis Francis A. Willis /s/
Name

Regional Comptroller
Title

Date 6/9/74

Negotiated by John T. Nesbitt

Telephone (301) 756-6784

OFFICE OF THE ASSISTANT SECRETARY, COMPTROLLER
CURRENTLY EFFECTIVE INDIRECT COST AND GRANT POLICY PUBLICATIONS*

---------	GRANTS ADMINISTRATION MANUAL—Department Staff Manual
---OASC-1 (Revised)	A GUIDE FOR COLLEGES AND UNIVERSITIES—Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the Department of Health, Education, and Welfare
---OASC-3 (Revised)	A GUIDE FOR HOSPITALS—Cost Principles and Procedures for Establishing Indirect Cost and Patient Care Rates for Grants and Contracts with the Department of Health, Education, and Welfare
---OASC-5 (Revised)	A GUIDE FOR NON-PROFIT INSTITUTIONS—Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the Department of Health, Education, and Welfare
---OASC-10 **	A GUIDE FOR STATE AND LOCAL GOVERNMENT AGENCIES—Cost Principles and Procedures for Establishing Cost Allocation Plans, Indirect Cost and Other Rates for Grants and Contracts with the Federal Government

*All of these publications are available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

**This publication replaces OASC-6, A Guide for State Government Agencies; OASC-8, A Guide for Local Government Agencies; and OASC-9, A Reference for State and Local Governments - Federal Agencies Responsible for Audit and Approval of Cost Allocation Plans Required by FMC 74-4.

Prepared By:
Division of Financial Management Standards & Procedures
Washington, D.C. 20201